2009 Annual Report

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

Report of the Board of Directors to the General Meeting of Shareholders

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Report of the Board of Directors to the General Meeting of Shareholders

At the meeting of the Board of Directors held on March 21, 2010, it was resolved to approve and publish the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of December 31, 2009.

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 2009

Real Developments

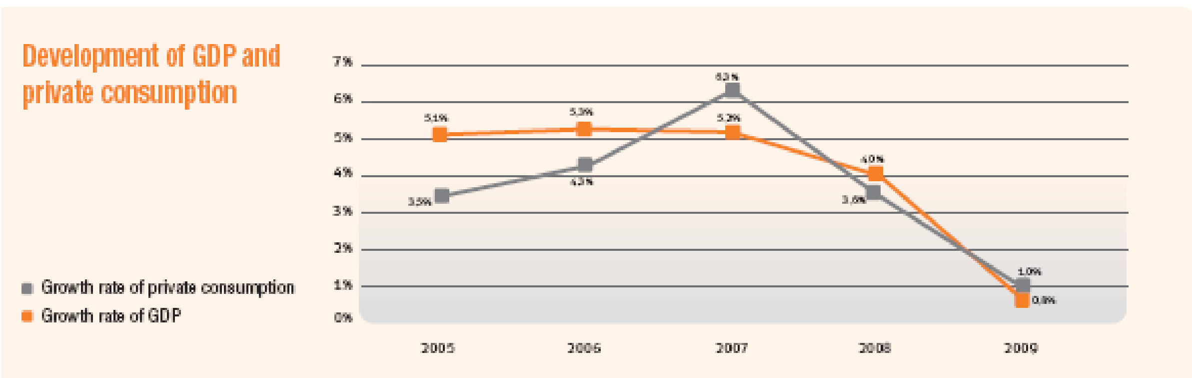
Estimates by the Central Bureau of Statistics for 2009 indicate a sharply lower growth rate in gross domestic product, which rose by 0.7% in 2009, compared to 4.0% growth in 2008.

However, quarterly data adjusted for seasonality indicates that the economy has been gradually recovering in 2009 from the recession which affected it as a result of the global recession and the international financial crisis. The growth rate increased from one quarter to the next, from a negative annual growth rate of -2.7% of GDP in the first quarter of the year, to a positive annual growth rate of 1.3% in the second quarter, to 3.6% in the third quarter and to 4.9% in the final quarter of 2009.

Imports and use of goods in the economy recorded a sharp, 14.0% decrease in 2009, compared to a 2.4% increase in 2008.

Total use in the economy in 2009 decreased by 3.6%, compared to a 3.5% increase in the previous year. Private consumption, one of the two major growth factors in the economy in recent years, grew by 1.5% in 2009 (a 0.3% decrease in per-capita consumption), following a 3.6% increase in 2008. This slow-down was primarily due to a sharp decrease in consumption of durable goods. Exports of goods and services, the other major factor, decreased sharply by 12.5%, compared to a 5.2% increase in 2008. Investment in fixed assets decreased by 6.0% in 2009, compared to a 4.4% increase in 2008, and public consumption increased by 2.1%, similar to 2008.

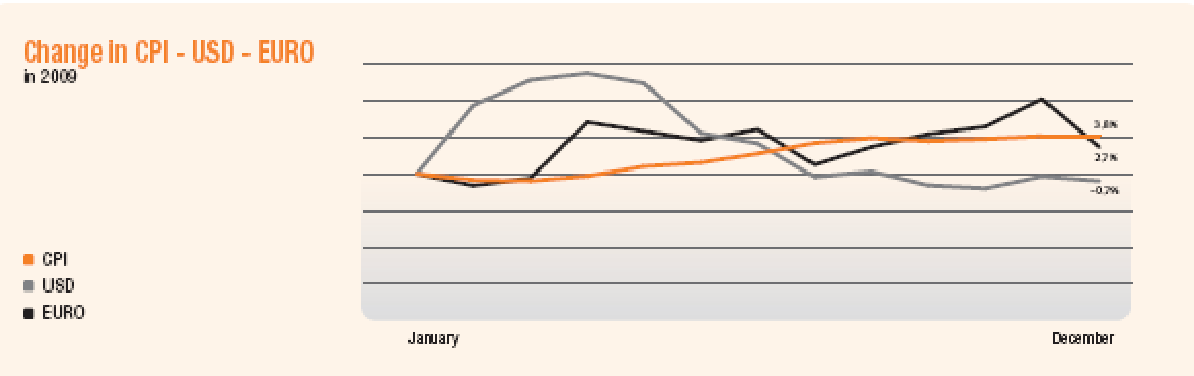
In January 2010, the Bank of Israel updated its forecast growth rate for the economy in 2010, to 3.5%.



Unemployment rose in 2009 to an average rate of 7.6%, compared to 6.1% in 2008. Unemployment reached its high for the year in May - at 7.9%. The trend changed starting in June, with unemployment gradually declining to 7.4% in November.

Inflation and exchange rates

In 2009, the Consumer Price Index increased by 3.9%, following a 3.8% increase in 2008 and a 3.4% increase in 2007.
In 2009, the CPI was impacted by higher taxes (VAT, cigarettes, gasoline and Drought Tax), an impact estimated by the Bank of Israel at 1.2%, while excluding this impact, the CPI rose by 2.7%. The major items contributing to the rise in the CPI were housing, transportation and communication, and home maintenance.
In 2009, the USD was devalued by 0.7% against the NIS, reaching NIS 3.775 per 1 USD at the end of 2009, compared to NIS 3.802 at the end of 2008. The Euro was revalued against the NIS in this period by 2.7%, reaching NIS 5.442 per Euro at the end of 2009, compared to NIS 5.297 per Euro at the end of 2008.
To support the NIS/USD exchange rate, the Bank of Israel in 2009 bought foreign currency amounting to $20 billion, continuing its buying policy which had started in 2008. In the third quarter, the Bank of Israel stopped its regular buying of foreign currency, and stated its intention to only intervene on ad-hoc basis thereafter. In actual fact, over the final two months of the year, intervention by the Bank of Israel in the foreign currency market declined significantly.
On February 28, 2010, the USD/NIS exchange rate was at 3.796.



Monetary and fiscal policy

In order to encourage economic growth, the Bank of Israel maintained low interest rates throughout the year. In the first few months of the year, the Bank of Israel interest rate was lowered from 1.75% to 0.5%. Subsequently, the interest rate remained unchanged for 5 months. In September, the interest rate was raised to 0.75%, and near the end of the year was raised once more to 1.00%. The interest rate for January 2010 was again raised to 1.25%, and remained unchanged for February and March. During the year, the Bank of Israel bought government bonds on the open market.

In 2009, the government deficit reached NIS 33.9 billion, or 5.2% of GDP, compared to the planned deficit of 6.0% of GDP, and compared to a deficit of 2.1% of GDP, or NIS 15.2 billion, in 2008. The higher deficit, compared to 2008, was due to both lower revenues and higher expenses. The lower than planned deficit was due to revenues being NIS 3.3 billion higher than planned, and interest expenses being NIS 1.8 billion lower than planned.

Residential construction and the mortgage market

According to the Central Bureau of Statistics, demand for new apartments (apartments sold or constructed not for sale) rose in 2009 by 9.5%, to reach 33,440 units. This is the highest level since 2002. Total transaction volume in new and used apartments, increased in 2009 by 7%. Demand was not uniform throughout the year. This is indicated by monthly sales of new apartments from private construction, which rose to its high point in June, and then declined gradually through the end of the year.

Despite a 4.0% growth in investment in housing construction in 2009, the number of new housing starts declined slightly. The decrease in housing starts, along with higher demand for housing, resulted in a decrease in inventory of apartments for sale, to 8,075 at the end of 2009, compared to 11,074 at the end of 2008, a 27% decrease.

The higher demand for housing resulted in a significant increase in apartment prices. This increase was also reflected in a 14% increase in the average mortgage size, such that despite a slight decrease in number of mortgages processed, total housing lending increased by 12%. Total housing loans granted in 2009 amounted to NIS 35.4 billion, compared to NIS 31.6 billion in 2008. Demand was also impacted by low interest rates prevailing in the mortgage market, with average mortgage rate (for calculating the early repayment fee) in 2009 being 3.19%, compared to an average rate of 3.81% in 2008.

Capital market

Starting in March 2009, swift rallies were recorded in global equity markets, with concerns about a global economic slow-down evaporating in view of signs of recovery around the globe. Equity markets in Israel, similar to those overseas, also responded by rallying sharply.

Equity market – the Tel Aviv 25 and Tel Aviv 100 indices rose in 2009 by 75% and 89%, respectively. The rally was led by small-cap stocks: the Tel Aviv 75 index rose by 150%, and the Other Stock index rose by 115%. Financial and real estate equities also rose significantly. The Financial 15 index and the Banking index rose in 2009 by 127% and 114%, respectively, while the Real Estate 15 index rose by 125%.

Average daily trading volume in equities and convertible securities in 2009 amounted to NIS 1.7 billion, compared to NIS 1.96 billion in 2008. In the final quarter of 2009, the average daily trading volume in equities and convertible securities amounted to NIS 1.85 billion, compared to NIS 1.83 billion in the final quarter of 2008. The slower rate of equity issuance continued through 2009 (excluding capital raised overseas), amounting to NIS 4.6 billion, compared to NIS 6.2 billion in 2008. Most of the capital raised in 2009 was via corporate bonds (see details below).

Bond market - the General Bond Index and the CPI-linked Bond Index rose in 2009 by 15.5% and 10.3%, respectively. The non-linked Bond index rose in 2009 by 2.5%. The Tel Bond 20 index rose in 2009 by 21.6%, and the Tel Bond 40 index, which also includes real estate companies, rose by 44%.

Lower concern about a credit crisis and the prevailing low interest rates resulted in lower spreads for corporate bonds above government bonds: Corporate bonds rated AA traded at the end of 2009 at a spread of 1.3 percentage points, compared to 4.3 percentage points above government bonds at the end of 2008. Corporate bonds rated A traded at the end of 2009 at a spread of 3.3 percentage points, compared to 24.7 percentage points above government bonds at the end of 2008. Lowered ratings for bank bonds resulted in the fact that, as of the end of 2009, there were no traded corporate bonds rated AAA.

In 2009, the business sector raised, via bond issuance to the public and to institutional investors, a total of NIS 32.6 billion, compared to NIS 23.3 billion in 2008.
The average daily trading volume in bonds for the fourth quarter of 2009 amounted to NIS 3.7 billion, compared to NIS 4.6 billion in the corresponding period last year - a 20% decrease resulting from the fact that sharp declines in the corresponding period in 2008 were accompanied by higher trading volumes. For all of 2009, the average daily trading volume in government bonds amounted to NIS 4 billion, similar to 2008.

Global economy

According to estimates by the International Monetary Fund, global GDP declined in 2009 (for the first time since World War II) by 0.8%, following a 3.0% increase in 2008. Developed nations were more strongly impacted, with GDP in the USA, Euro zone and Japan decreasing by 2.4%, 4.0% and 5.0%, respectively. Furthermore, unemployment rated in the USA and Euro Zone reached 10% of the total work force, and in Spain - even 20%. Developing nations, primarily China and India, were also impacted, although they managed to hold on to positive GDP growth.

During this period, extensive bail-out plans were implemented around the world, with the major ones being in the USA and in China. The combination of very large expenditures in conjunction with the bail-out plans, and of lower tax revenues for these countries, resulted in a significant growth in budgetary deficit and in government debt. Several nations even faced the risk of bankruptcy and required foreign assistance.

In 2009, an expansive monetary policy was applied around the world, designed to stop the economic crisis and to promote growth. This policy included very low monetary interest rates (0.25% and 1.00% in the USA and Euro Zone, respectively, throughout most of the year), and in some countries - also purchase of bonds by central banks, aimed at lowering long-term interest rates.

Against the backdrop of this expansive fiscal and monetary policy, the second half of 2009 showed signs of recovery in the global economy. Growth rates turned positive in most developed nations, mainly in the USA, and were accelerated in developing nations. However, unemployment rates remained high at the end of the year.

In view of the recession, and despite the expansive monetary policy, inflation rates in 2009 were relatively low in developed nations. In the Euro zone, the CPI rose in 2009 by 0.9%, and in Japan the CPI declined by 1.7%. In the USA, the CPI rose in 2009 by 2.8%. Note that the price of oil, which declined sharply in 2008 to reach $45 a barrel at the end of 2008, increased by 75% in 2009, to reach $79 a barrel at the end of 2009.

Allayed concern about further deterioration of the global crisis, and improved investor confidence resulted in rallies in leading indices overseas.

The Dow Jones, NASDAQ and S&P 500 indices rose in 2009 by 18.8%, 43.9% and 23.5%, respectively. The FTSE 100 and DAX indices rose in the same period by 22.1% and 23.8%, respectively. The French CAC and Japanese Nikkei indices rose in the reported period by 22.3% and 19%, respectively, and the Dj EuroSTOXX index rose by 25%.

Bank Group Operations and Description of its Businesses Development

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, 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.

Bank Group

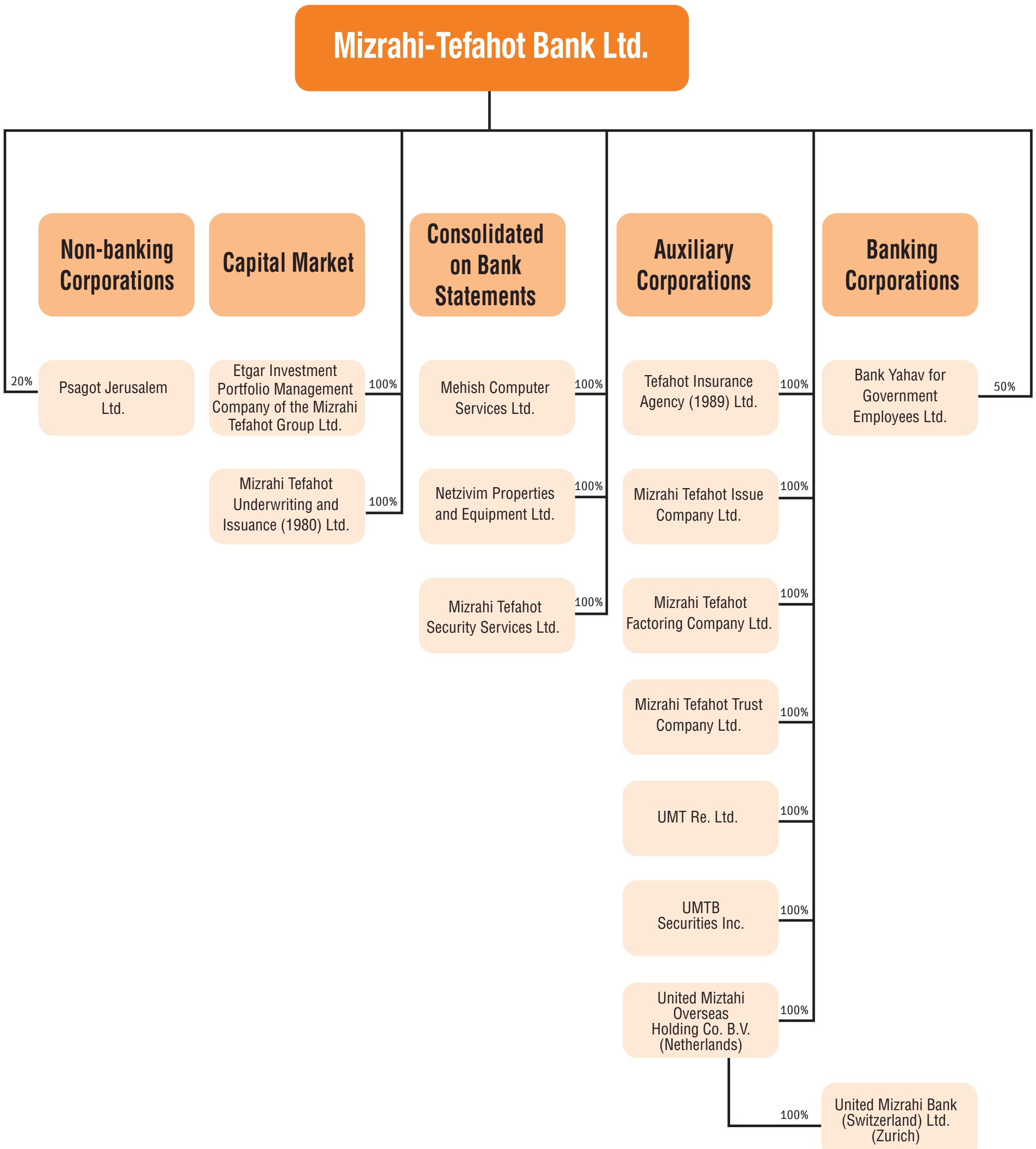
Mizrahi Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was associated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank’s name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In the years 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and “Tefahot” Israel Mortgage Bank Ltd. (“Tefahot”), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi Tefahot Bank Ltd.

The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 158 branches and business centers. Furthermore, business clients are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via several subsidiaries, 4 branches (of which one is of a subsidiary) and 4 representative offices in Europe, USA and Latin America.

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, management of securities portfolios for clients, pension advisory service, trust services, distribution of mutual funds and provident fund operation.

Merger of Bank Adanim – on November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee and by the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. (hereinafter: "Bank Adanim") – a wholly-owned and wholly-controlled subsidiary of the Bank – to approve the merger of Bank Adanim with the Bank. On February 23, 2009, the approval of the Registrar of Corporations for the merger was received, and as of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into the Bank. For further details, see Note 6.E.1) to the financial statements.

Holding Structure - Major Companies [1]:



For further information about organizational changes in the Group, see Note 6 to the financial statements.

[1] The Bank has holdings in other companies which are not material to Bank operations.

Control of the Bank Group

To the best of the knowledge of the Bank and the Board of Directors, the holding stakes of controlling shareholders of the Bank, as of December 31, 2009, are as follows:

	Holder	No. of shares	Share of capital and of voting rights
Wertheim Group	M.W.Z. (Holdings) Ltd.[(1)]	15,643,785	7.03%
	F & W (Registered Partnership) [(2)]	29,275,441	13.15%
	Total Wertheim Group	44,919,226	20.18%
Ofer Group	C.A.B.M. Ltd. [(3)]	7,066,264	3.17%
	L.A.B.M. (Holdings) Ltd[(4)]	12,862,041	5.78%
	E.A.B.M. Ltd.[(5)]	15,175,631	6.82%
	Ofer Brothers Properties (1957) Ltd. [(6)]	14,591,953	6.55%
	Ofer Brothers Investments Ltd.[(7)]	7,477,642	3.36%
	Total Ofer Group	57,173,531	25.68%
	Total holding stake of controlling shareholders	102,092,757	45.86%
Total shares issued by the Bank		[(8)]222,639,475	100.00%

(1) A private company, the shares of which are held by Mr. Moshe Wertheim (99.2%) and in trust for Mr. Moshe Wertheim by Attorney Binyamin Rothenberg (0.8%).
(2) A registered partnership held by Mr. Moshe Wertheim (1%) and by M.W.Z. (Holdings) Ltd. (99%).
(3) A private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company, the shares of which are held by Ofer Brothers Investments Ltd. (89.1%) and by Nazareth Industrial Properties (10.9%). Nazareth Industrial Properties Ltd. is a private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company wholly-owned and controlled by Ofer Brothers Properties (1957) Ltd.
(4) A private company wholly-owned and controlled by L.I.N. (Holdings) Ltd., a private company wholly-owned and controlled by Mr. Eyal Ofer (95%) and a foreign company (5%).
(5) A private company wholly-owned and controlled by Ofer Brothers Holdings Properties Ltd., a private company wholly-owned and controlled by Ofer Brothers Properties (1957) Ltd.
(6) A private company, the shares of which are held by Leora Ofer (15%), Doron Ofer (15%), Yehuda (Yuli) Ofer (36.67%), L.I.N. (Holdings) Ltd. (33.33%) (as aforesaid, a private company wholly-owned and controlled by Mr. Eyal Ofer (95%) and a foreign company (5%)).
(7) A private company wholly-owned and controlled by Ofer Brothers Properties (1957) Ltd.
(8) Excludes 2,500,000 dormant shares bought back by the bank in 2009. For further details, see Note 13.D.

Shareholder agreements

An agreement was signed on October 6, 1994 between E.A.B.M. Ltd., C.A.B.M. Ltd. and L.A.B.M. (Holdings) Ltd., as one party ("Ofer Group corporations") and between Feinberg-Wertheim (Registered Partnership) [(1)] as the other party ("Wertheim Group corporations") for cooperation in exercising rights associated with Bank shares ("voting agreement"). The voting agreement sets forth, *inter alia*, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Concurrently with signing of the voting agreement a cooperation agreement was signed between the corporations that are the controlling shareholders of the companies comprising the Ofer Group, i.e. between E.A.B.M. Ltd., C.A.B.M. Ltd, Ofer Brothers Properties (1957) Ltd. and Ofer Brothers Investments Ltd. ("Ofer Properties") as one party, and between L.A.B.M. (Holdings) Ltd., which is wholly-owned by L.I.N. (Holdings) Ltd. ("L.A.B.M.") as the other party, whereby in all matters relating to holdings of Bank shares, its control and management rights, the parties will divide equally. Therefore, the Ofer corporations' quota of directors (as structured above) will be divided equally between Ofer Properties and L.A.B.M. According to terms of the agreement, decisions will not be made by the Ofer Group corporations, on any matter related to the Bank, including in votes at the Bank's General Meetings, unless Ofer Properties and L.A.B.M. have given their consent.

Investments in Bank Capital and Transactions in Bank Shares

- On February 1, 2009, the Bank allotted to the trustee, on behalf of Mr. Eliezer Yones, 5,571,381 options, not listed for trading on the stock exchange, pursuant to provisions of the option allotment plan in accordance with a private offering approved by the Bank Board of Directors on November 30, 2008 - which is an integral part of the president's employment terms. The ordinary shares, of NIS 0.1 par value each, to be allotted upon exercise of the options, would be listed for trading on the stock exchange. These options are in addition to Bank securities held by the president personally and via the trustee, as stated in the above chapter on control of the Bank.

  See Note 16.A.1 to the financial statements for details.

- In the third quarter of 2009, the Bank conducted a buy-back of 2,500,000 shares at a cost of NIS 76 million, in accordance with the approval by the Bank of Israel. For details, see Note 13.D. to the financial statements.

Board of Directors' decision with regard to capital adequacy ratio

On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12% by end of 2009. These resolutions are in conjunction with the resolution by the Bank's Board of Directors from April 2006, stipulating that the capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%.

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.

In a letter dated August 30, 2009, the Bank of Israel instructed banks that, pending completion of the supervisory review and assessment process by the Bank of Israel of implementation of Pillar 2 of the interim directives concerning Basel II implementation (SREP), the bank is required to continue maintaining the capital targets as defined there by in terms of Basel I (Proper Conduct of Banking Business Regulation No. 311, prior to update there of pursuant to Basel II rules).

For details of the risk adjusted capital ratio, see Note 14 to the financial statements.

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different operating segments, an assessment is made of the impact of achieving those objectives on total risk assets for the Bank, and hence on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors as stated above.

For details of raising funds by means of obligatory notes and debentures, see chapter on Sources and Financing and Note 11 to the financial statements.

Dividend Distribution

Dividend distribution policy

On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policy, whereby, provided that the Bank's capital ratio is not less than 10%, dividends will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policy is in effect as from the year 2006. On December 24, 2007, the Bank Board of Directors determined, in conjunction with approval of the strategic five-year plan, that during the plan term, the Bank's adopted dividend distribution policy would be maintained.

In addition to the aforesaid, the distribution of dividends by the Bank is subject to the provisions of law and additional limitations, as provided in Note 13 to the financial statements.

In view of the global financial crisis and its implications on the capital market in Israel, the Bank recently refrained from distributing dividends.

Distributed Dividends

Below are details of dividends distributed by the Bank since 2007 through the publication date of these financial statements (in reported amounts):

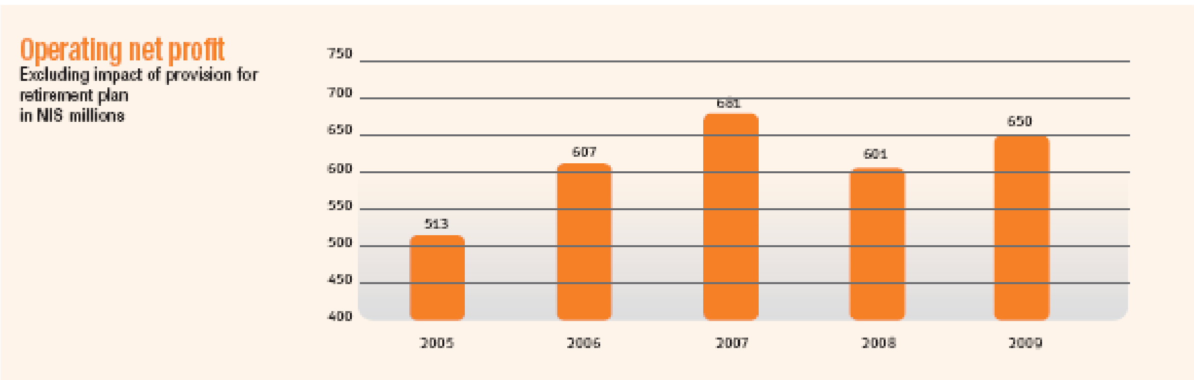
Payment date	Dividend per share (in Agorot)	Total dividends paid (NIS in millions)
June 13, 2007	90.49	200
September 19, 2007	56.46	125
December 19, 2007	33.82	75
February 19, 2008	33.80	75
June 11, 2008	33.78	75

Profit and Profitability

In 2009, the Bank saw positive developments in its operations, which contributed to profitability and to total business, in line with the strategic plan determined by the Board of Directors:
The Bank's share of mortgages issued in 2009 was 36%, compared to 34% in 2008; credit to the public grew by 7.1%, led by expansion of retail credit: An increase of 17.0% in mortgages and 12.1% in other household credit; client activity volumes in the capital market grew, resulting in an increase of 13% in revenues from securities transactions (excluding initial consolidation of Bank Yahav in the second half of 2008).
The prevailing low interest rates in the market in 2009 - of close to zero - significantly eroded the spread on deposits, thereby impacting profit from financing operations. In 2009, the Bank maintained its policy of improving efficiency, by signing a new labor agreement which guarantees calm labor relations through 2015, as well as a retirement program for employees, for which it recorded a non-recurring provision amounting to NIS 170 million in the second half of the year (NIS 118 million after tax), a policy whose outcome would restrain expenses and improve profitability in coming years.

Operating net profit for the Group, excluding a non-recurring provision amounting to NIS 100 million for the voluntary retirement program in the course of the Bank's continuing drive for improved efficiency, **amounted in the fourth quarter of 2009 to NIS 188 million**, compared to NIS 96 million in the corresponding period last year - **an increase of 95.8%.** This reflects a **12.1% annualized return on equity**, compared to 6.7% in the corresponding period last year. Operating net profit for the Group, as reported in the fourth quarter of 2009 (including non-recurring expenses), amounted to NIS 116 million, reflecting a 7.3% annualized return on equity.

Operating net profit for the Group, excluding a non-recurring provision amounting to NIS 170 million for the voluntary retirement program in the course of the Bank's continuing drive for improved efficiency, **amounted in 2009 to NIS 650 million**, compared to NIS 601 million in the corresponding period last year - **an increase of 8.2%.** This reflects a **10.4% annualized return on equity,** similar to 2008. Operating net profit for the Group, as reported in 2009 (including non-recurring expenses), amounted to NIS 532 million, reflecting a 8.5% annualized return on equity.



Net profit for the Group, excluding a provision amounting to NIS 100 million for the voluntary retirement program in the course of the Bank's continuing drive for improved efficiency, **amounted in the fourth quarter of 2009 to NIS 186 million**, compared to NIS 96 million in the corresponding period last year - **an increase of 93.8%.** This reflects a **11.9% annualized return on equity**, compared to 6.7% in the corresponding period last year. Net profit for the Group, as reported in the fourth quarter of 2009 (including non-recurring expenses), amounted to NIS 114 million, reflecting a 7.2% annualized return on equity.

Net profit for the Group, excluding a non-recurring provision amounting to NIS 170 million for the voluntary retirement program in the course of the Bank's continuing drive for improved efficiency, **amounted in 2009 to NIS 648 million**, compared to NIS 602 million in the corresponding period last year - **an increase of 7.6%.** This reflects a **10.4% annualized return on equity, similar to 2008.** Net profit for the Group, as reported in 2009 (including non-recurring expenses), amounted to NIS 530 million, reflecting a 8.5% annualized return on equity.

The main factors affecting Group profit in 2009, compared with 2008:

- Profit from financing operations in 2009 amounted to NIS 2,385 million, compared to NIS 2,289 million in 2008 - an increase of 4.2%.
- Revenues from operating commissions increased in 2009 by NIS 146 million, or 12.6%, compared to 2008. Excluding the impact of initial consolidation of Bank Yahav's financial statements in the second half of 2008, revenue from operating commissions grew by NIS 70 million, or 6.4%.
- Net gain from investment in shares in 2009 amounted to NIS 114 million, compared to NIS 46 million in 2008. The increase is primarily due to realization of shares received as collateral for client debt.
- The provision for doubtful debts decreased in 2009 by NIS 20 million over 2008, a decrease of 5.1%. The decrease in the provision is primarily due to a decrease in the specific provision with respect to non-performing borrowers and in the provision by extent of arrears with respect to mortgages.
- Payroll expenses in 2009, excluding the impact of the employee stock option plan and non-recurring effects, as mentioned in the analysis of payroll expenses, increased by NIS 57 million, or an increase of 4.8% compared to 2008. Total Group payroll expenses in 2009, including the impact of the employee stock option plan and non-recurring effects, amounted to NIS 1,630 million, compared to NIS 1,273 million in 2008.
- Operating and other expenses, excluding payroll expenses, excluding the impact of consolidation of Bank Yahav's financial statements, increased by NIS 31 million (3.9%) compared to 2008, primarily due to an increase in depreciation expenses for computers, buildings and equipment. Initial consolidation of Bank Yahav's financial statements in the second half of 2008, resulted in total operating and other expenses, excluding payroll expenses, amounting to NIS 1,010 million in 2009, compared to NIS 880 million in the corresponding period last year.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debts in the fourth quarter of 2009 amounted to NIS 655 million, compared with NIS 588 million in the same period last year – an increase of 11.4%. Group profit from financing operations before provision for doubtful debts amounted to NIS 2,385 million in 2009, compared with NIS 2,289 million in the corresponding period last year - an increase of 4.2%.

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

	For the Year Ended December 31			For the Quarter Ended December 31		
	2009	2008	Rate of change	2009	2008	Rate of change
Current operations including non-recurring effects [(1)]	**2,030**	**2,183**	**(7.1%)**	**527**	**552**	**(4.5%)**
Revenues from interest on problem loans	155	155		53	51	
Gain (loss) from realization and impairment of debentures available for sale and debentures held for trading, net	25	(197)		5	(111)	
Effect of accounting treatment of derivatives at fair value and others [(2)]	(23)	7		21	24	
Consolidation of Bank Yahav's financial statements [(3)]	198	[(4)] 141		49	72	
Total	**2,385**	**2,289**	**4.2%**	**655**	**588**	**11.4%**

(1) The lower interest rates, which significantly eroded margins on deposits, led to a decrease in profit from current financing operations.
(2) The effect of the accounting treatment of derivatives at fair value is due to the difference between the accounting treatment of balance sheet instruments, charged to the profit and loss statement on the accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
(3) Excluding gain from realization of debentures available for sale.
(4) For the second half of 2008 alone, after which Bank Yahav's financial statements are consolidated with the Bank's.

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

Operating segment	[(1)] 2009	2008	Rate of change
Retail banking:			
Mortgages	427	422	1.2%
Household	695	771	(9.9%)
Small business	297	329	(9.7%)
Total	**1,419**	**1,522**	**(6.8%)**
Private banking	42	[(2)] 61	(31.1%)
Commercial banking	138	148	(6.8%)
Business banking	579	541	7.0%
Financial management	207	[(2)] 17	-
Total	**2,385**	**2,289**	**4.2%**

(1) The lower interest rates, which significantly eroded margins on deposits, led to a decrease in profit from current financing operations.
(2) Reclassified.

The average balances of financial assets by the different linkage basis (including impact of derivatives) are as follows:

Linkage segment - financial assets	2009	2008	Rate of change
Israeli currency - non-linked	98,105	79,528	22.1%
Israeli currency - linked to the CPI	40,442	40,851	(1.0%)
Foreign currency [(1)]	65,223	63,955	1.98%
Total	203,770	184,334	10.0%

(1) Local activity and overseas affiliates (includes foreign currency-linked Israeli currency).

The increase in average balance of financial assets in the non-linked segment is due to an increase in non-linked credit, to diversion of deposits from overseas banks to deposits in Israel and to a NIS 9 billion growth in the average balance of non-linked assets with respect to initial consolidation of Bank Yahav with the Group's financial statements.

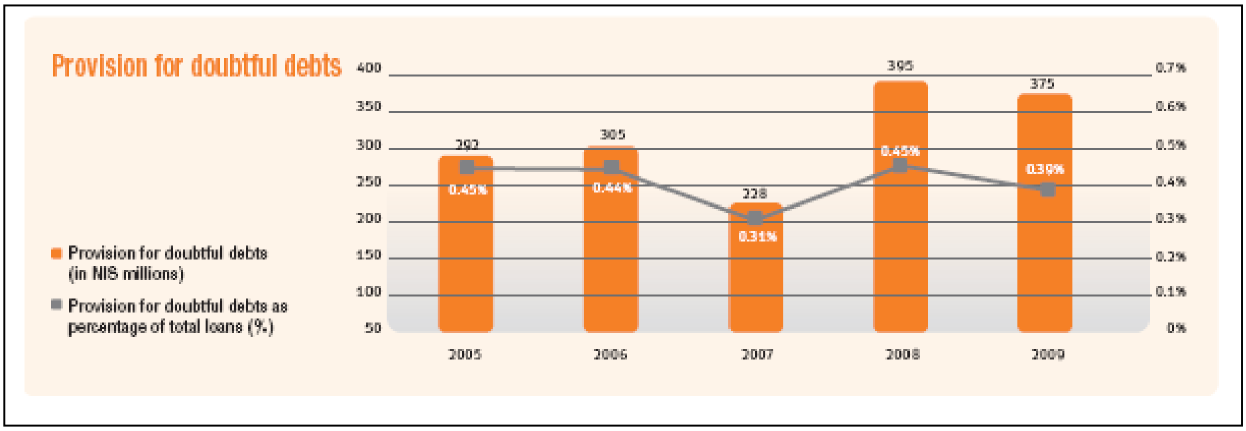
Interest margins (difference between the rate of income on assets and the rate of expenses on liabilities) in the various linkage segments (including the effect of derivatives, in percent) are as follows:

Linkage segment	2009	2008
Israeli currency - non-linked	1.09	1.36
Israeli currency - linked to the CPI	0.52	0.73
Foreign currency [(1)]	0.95	0.55
Total including impact of derivatives	0.91	0.96
Total excluding impact of derivatives	1.63	2.50

(1) Local activity and overseas affiliates (includes foreign currency-linked Israeli currency).

The lower interest spreads are due to lower interest rates in the market, which resulted in significant erosion of spreads on deposits.

The provision for doubtful debts for the Group in 2009 amounted to NIS 375 million, compared to NIS 395 million in 2008 - an increase of 5.1%. In the fourth quarter of 2009, the provision for doubtful debts amounted to NIS 107 million, compared with NIS 182 million in the corresponding period last year, a decrease of 41.2%.
The decrease in provision is primarily due to a decrease in the specific provision with respect to non-performing borrowers and in the provision by extent of arrears with respect to mortgages.



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

	For the Year Ended December 31	
	2009	2008
Specific provision:		
By extent of arrears	20	34
Other	336	345
Total specific provision	356	379
General and additional provision	19	16
Total	375	395
Annualized rate of provision for doubtful debts to total credit to the public	0.39%	0.44%

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

Operating segment	2009	2008	Rate of change
Retail banking:			
Mortgages	24	42	(42.9%)
Household (1)	70	(2) 55	27.3%
Small business	72	(2) 79	(8.9%)
Total	166	176	**(5.7%)**
Private banking	1	1	-
Commercial banking	14	25	(44.0%)
Business banking	194	180	7.8%
Financial management	-	13	-
Total	375	395	**(5.1%)**

(1) Includes initial consolidation of the provision for doubtful debts at Bank Yahav, amounting to NIS 12 million in 2009 and to NIS 6 million in the second half of 2008.

(2) Reclassified.

The balance of the general and supplementary provision for doubtful debts on the Group's balance sheet amounted to NIS 213 million as of December 31, 2009, compared with NIS 194 million as of December 31, 2008.

Operating and other revenues for the Group, excluding the impact of initial consolidation of Bank Yahav's financial statements, amounted in 2009 to NIS 1,318 million, compared to NIS 1,170 million in the corresponding period last year, an increase of 12.6%.

With revenues amounting to NIS 146 million in 2009, and to NIS 59 million in 2008, with respect to initial consolidation of Bank Yahav's financial statements starting on July 1, 2008, total operating and other revenues in 2009 amounted to NIS 1,464 million, compared to NIS 1,229 million in the corresponding period last year, an increase of 19.1%.

In the fourth quarter of 2009, operating and other revenues for the Group amounted to NIS 417 million, compared to NIS 331 million in the corresponding period last year, an increase of 26.0%.

Revenues from operating commissions for the Group, excluding the impact of initial consolidation of Bank Yahav's financial statements in the second half of 2008, amounted to NIS 1,172 million in 2009, compared with NIS 1,102 million in the corresponding period last year - an increase of 6.4%. With revenues amounting to NIS 135 million in 2009, and to NIS 59 million in 2008, with respect to consolidation of Bank Yahav's financial statements, total operating revenues in 2009 amounted to NIS 1,307 million, compared to NIS 1,161 million in the corresponding period last year, an increase of 12.6%.

In the fourth quarter of 2009, operating revenues for the Group amounted to NIS 353 million, compared to NIS 310 million in the corresponding period last year, an increase of 13.9%.

Net gain from investment in shares in 2009 amounted to NIS 114 million, compared to a NIS 46 million gain in 2008. In the fourth quarter of 2009, net gain from investment in shares amounted to NIS 55 million, compared with NIS 16 million in the same period last year. The increase in gain is primarily due to realization of shares received as collateral for client debt in the second half of 2009.

Other revenues for the Group, excluding impact of initial consolidation of Bank Yahav in the second half of 2008, amounted to NIS 32 million in 2009, compared with NIS 22 million in 2008 - an increase of 45.5%. Including revenues amounting to NIS 11 million in 2009 (in 2008 there were no other revenues at Bank Yahav) with respect to initial consolidation of Bank Yahav's financial statements, total other revenues in 2009 amounted to NIS 43 million, compared to NIS 22 million in 2008.

In the fourth quarter of 2009, other revenues for the Group amounted to NIS 9 million, compared to NIS 5 million in the corresponding period last year, an increase of 80%.

Operating and other expenses for the Group, excluding impact of initial consolidation of Bank Yahav and excluding non-recurring effects on payroll expenses as stated below, amounted to NIS 2,056 million in 2009, compared with NIS 1,982 million in the corresponding period last year - an increase of 3.7%. Including expenses with respect to initial consolidation of Bank Yahav's financial statements, as well as non-recurring effects in payroll expenses, as stated below, total operating and other expenses in 2009 amounted to NIS 2,640 million, compared to NIS 2,153 million in 2008.

Operating and other expenses for the Group amounted to NIS 785 million in the fourth quarter of 2009, compared with NIS 588 million in the corresponding period last year - an increase of 33.5%.

Payroll and associated expenses for the group, excluding the impact of the employee stock option plan, the average growth in number of positions and non-recurring effects amounted in 2009 to NIS 1,220 million, compared with NIS 1,177 million in 2008, an increase of 3.7%.

Analysis of the development in payroll and associated expenses follows:

	2009	2008	Rate of change
Total payroll and associated expenses, excluding non-recurring items	1,234	1,177	4.8%
Stock option plan for Bank employees (1)	59	15	
Impact of extension of exercise period of employee stock options	13	-	
Provision for voluntary retirement program (2)	170	-	
Impact of consolidation of Bank Yahav's financial statements	154	(3) 81	
Payroll and associated expenses - as reported	1,630	1,273	28.0%

(1) Expenses with respect to the stock option plans are spread in a non-linear manner over the term of the plans: In early years, the expense is highest, and in later years, as more lots in these plans vest, the expense becomes smaller.

(2) The retirement program drtermined by the labor agreement signed in the third quarter of 2009 is part of the on-going efficiency improvement process conducted by the Bank.

(3) For the second half of 2008 alone, after which Bank Yahav's financial statements are consolidated with the Bank's.

Payroll and associated expenses for the Group amounted to NIS 504 million in the fourth quarter of 2009, compared with NIS 327 million in the corresponding period last year.

Maintenance and depreciation expenses for buildings and equipment for the Group, excluding the impact of initial consolidation of Bank Yahav's financial statements in the second half of 2008, amounted in 2009 to NIS 492 million, compared to NIS 445 million in 2008 - an increase of 10.6%, primarily due to higher depreciation expenses for computers and equipment and higher software maintenance expenses - due to operation of new computer systems. Including expenses amounting to NIS 65 million in 2009, and to NIS 28 million in the second half of 2008, with respect to initial consolidation of Bank Yahav's financial statements, total maintenance and depreciation expenses for buildings and equipment in the first nine months of 2009 amounted to NIS 557 million, compared to NIS 473 million in the corresponding period last year, an increase of 17.8%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 141 million in the fourth quarter of 2009, compared with NIS 132 million in the corresponding period last year – an increase of 6.8%.

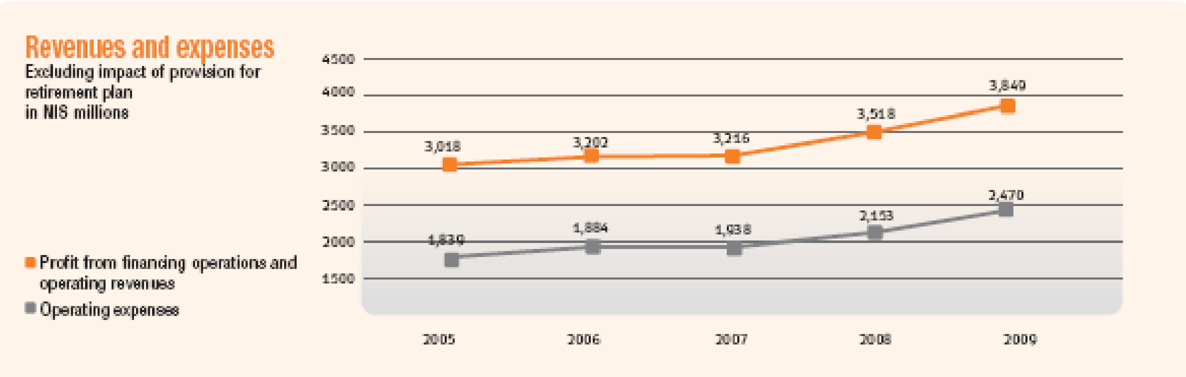
Operating and other expenses for the Group, excluding impact of initial consolidation of Bank Yahav's financial statements, amounted to NIS 344 million in 2009, compared with NIS 360 million in 2008 - a decrease of 4.4%. Including expenses amounting to NIS 109 million in 2009 and to NIS 47 million in 2008, with respect to initial consolidation of Bank Yahav's financial statements, total operating and other expenses in 2009 amounted to NIS 453 million, compared with NIS 407 million in 2008.

Operating and other expenses for the Group amounted to NIS 140 million in the fourth quarter of 2009, compared with NIS 129 million in the corresponding period last year - an increase of 8.5%.

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

	For the Year Ended December 31	
	2009	2008
Operational Coverage Ratio (1)	55.5%	57.1%
Cost-Income Ratio(2)	68.6%	61.2%
Excluding the impact of initial consolidation of Bank Yahav's financial statements and provision for retirement agreement		
Operational Coverage Ratio (1)	61.5%	58.6%
Cost-Income Ratio(2)	61.8%	60.2%

(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.



Group pre-tax operating profit in 2009 amounted to NIS 834 million, compared to NIS 970 million in 2008, a decrease of 14.0%.
Pre-tax operating profit for the Group amounted to NIS 180 million in the fourth quarter of 2009, compared with NIS 149 million in the corresponding period last year - an increase of 20.8%.

Provision for taxes on operating profit amounted to NIS 286 million in 2009, compared with NIS 356 million in 2008, a decrease of 19.7%.
In the fourth quarter of 2009, provision for taxes on operating profit amounted to NIS 61 million, compared to NIS 47 million in the corresponding period last year, an increase of 29.8%.

Operating net profit excluding a provision for the voluntary retirement program amounted to NIS 650 million in 2009, compared to NIS 601 million in 2008, an increase of 8.2%. Operating net profit including a provision for the voluntary retirement program amounted to NIS 532 million in 2009.

Operating net profit, excluding a provision for voluntary retirement amounted to NIS 188 million in the fourth quarter of 2009, compared with NIS 96 million in the corresponding period last year - an increase of 95.8%. Operating net profit including a provision for the voluntary retirement program amounted to NIS 116 million in the fourth quarter of 2009.

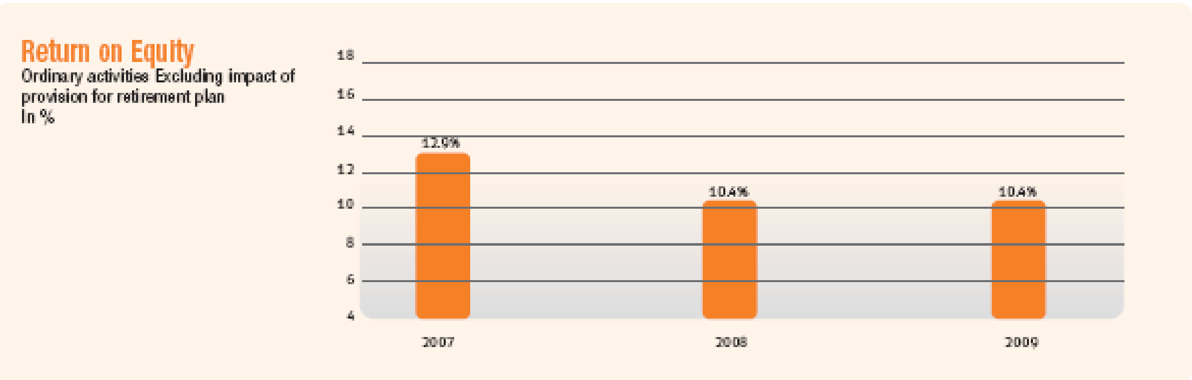
Return [(1)] on Group profit and its development relative to shareholders' equity[(2)] (in %):

	2009	2008	2008
Net operating profit	8.5	10.4	12.9
Net profit	8.5	10.4	17.2
Operating net profit excluding retirement program	10.4	10.4	12.9

				2009				2008
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net operating profit	7.3%	10.2%	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%
Net profit	7.2%	10.2%	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%
Operating net profit excluding retirement program	12.1%	13.3%	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%

(1) Annualized return.

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



Earnings per share

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

	2009	2008	2007
Basic earnings per share:			
From current operations	2.39	2.70	3.08
From net profit	2.38	2.71	4.11
Diluted earnings per share:			
From current operations	2.38	2.68	3.03
From net profit	2.37	2.69	4.04

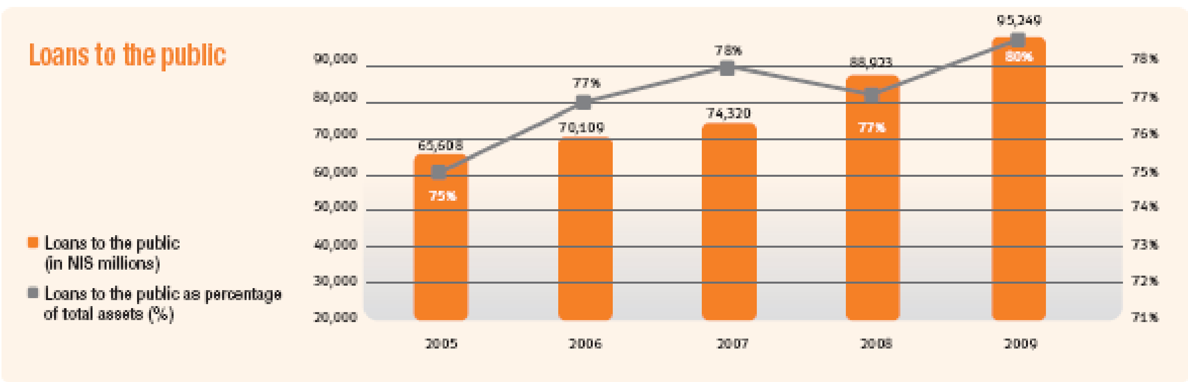
Development of balance sheet items

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

			December 31
	2009	2008	Change in %
Balance sheet total	118,439	114,886	3.1
Credit to the public	95,249	(1) 88,923	7.1
Deposits from the public	95,021	91,779	3.5
Securities	7,643	9,259	(17.5)
Shareholders' equity	6,532	5,952	9.7

(1) Reclassified. For more information, see Note 4.A.4).

Loans to the public - loans to the public in the consolidated balance sheet as of December 31, 2009 accounted for 80% of total assets, compared with 77% at the end of 2008. The Group's loans to the public increased in 2009 by NIS 6 billion, an increase of 7.1%. Excluding impact of the NIS devaluation, loan volume increased by 7.0% in 2009.



Loans to the public by linkage basis (NIS in millions) are as follows:

	Balance as of December 31			Share of total credit to the public as of December 31	
	2009	2008	Change in %	2009	2008
Israeli currency					
Non-linked	47,841	(1) 40,787	17.3	50.2%	45.9%
CPI- linked	34,678	34,211	1.4	36.4%	38.5%
Foreign currency and foreign currency linked	12,730	13,925	(8.6)	13.4%	15.7%
Total	95,249	(1) 88,923	7.1	100%	100%

(1) Reclassified. For more information, see Note 4.A.4).

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

Operating segment	2009	2008	Rate of change
Retail banking:			
Mortgages	48,648	41,593	17.0%
Household	15,446	(1) 13,781	12.1%
Small business	4,928	4,955	(0.5%)
Total	69,022	60,329	14.4%
Private banking	1,368	1,350	1.3%
Commercial banking	4,198	4,545	(7.6%)
Business banking	20,661	22,699	(9.0%)
Total – business and others	26,227	28,594	**(8.3%)**
Total	95,249	88,923	7.1%

(1) Reclassified. For more information, see Note 4.A.4).

Development of Group credit risk distribution by size of borrower is as follows:

	2009		2008	
Borrower credit risk (NIS in thousands)	Share of total Group credit risk	Share of total Group number of borrowers	Share of total Group credit risk	Share of total Group number of borrowers
Up to 150	16.7%	80.0%	16.8%	80.6%
150-600	24.8%	16.0%	25.4%	16.4%
600-2,000	16.6%	3.5%	12.2%	2.5%
Above 2,000	41.9%	0.5%	45.6%	0.5%

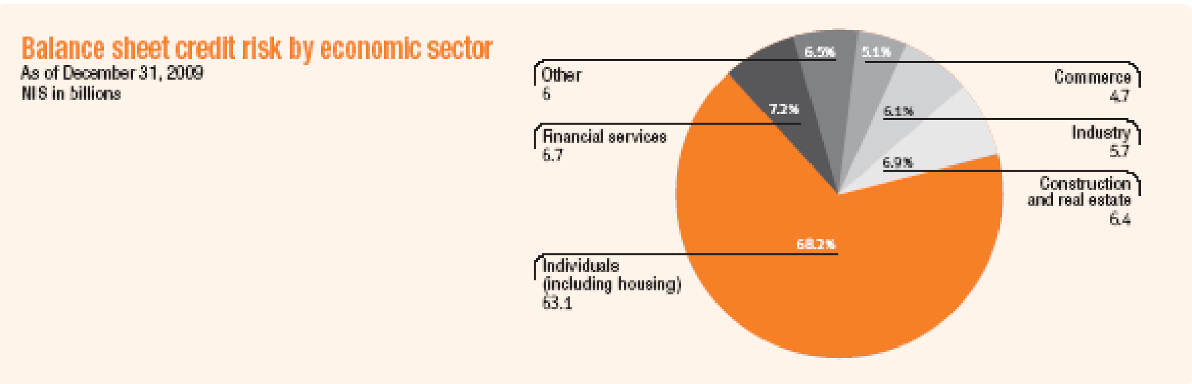
Credit risk according to major industrial sectors [1] with respect to borrower operations in Israel (in NIS millions)

	2009		2008		
Sector	Balance sheet credit risk	% of total balance sheet credit risk	Balance sheet credit risk	% of total balance sheet credit risk	% change
Private individuals (includes mortgages)	63,141	68.2%	[2] 54,765	[2] 63.2%	15.3%
Construction and real estate	6,369	6.9%	7,411	8.6%	(14.1%)
Financial services	6,699	7.2%	7,000	8.1%	(4.3%)
Industry	5,655	6.1%	6,826	7.9%	(17.2%)
Commerce	4,701	5.1%	4,842	5.6%	(2.9%)
Other	6,034	6.5%	5,787	6.7%	3.5%
Total	92,599	100.0%	86,631	100.0%	6.8%

(1) Includes credit and investments in bonds by the public, and other assets with respect to derivatives of the public.
(2) Reclassified. For more information, see Note 4.A.4).

Credit risk for credit to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel instructions. On-balance-sheet risk includes balances of credit to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities.

Total Group credit risk as of December 31, 2009 amounted to NIS 139.4 billion, compared to NIS 132.7 billion in 2008 - an increase of 5.1% primarily due to increase in housing loans.



Total Group credit risk for non-performing loans at December 31 (NIS in millions):

	2009	2008
Non-accrual debt	908	1,145
Rescheduled debt	1,079	194
Debt designated for rescheduling (1)	126	307
Debt in temporary arrears	746	1,034
Includes: with respect to housing loans	461	537
Debt under special supervision (1)	1,766	3,275
Includes: Debt for which a specific provision was made (1)	50	682
Includes: Housing loans provided for by extent of arrears	539	615
Total balance sheet credit to problem borrowers	4,625	5,955
Off-balance sheet credit to problem borrowers	688	941
Debentures of problem borrowers	30	112
Problem loans of financial institutions	12	12
Total credit risk, including with respect to problem borrowers	5,355	7,020

(1) Debt for which a debt rescheduling process was in place, were re-classified in the financial statements as of December 31, 2008 as debt designated for rescheduling. In November 2009, principles were established with regard to rescheduling of this debt.

Securities - investment in securities was reduced in 2009 by NIS 1.6 billion, a decrease of 17.5%. The decrease 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:

	Balance as of December 31		
Linkage segment	2009	2008	Change in %
Israeli currency			
CPI- linked	1,339	1,953	(31.4)
Non-linked	2,650	2,755	(3.8)
Foreign currency and foreign currency linked	3,568	4,171	(14.5)
Non-monetary items	86	380	(77.4)
Total	7,643	9,259	(17.5)

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

	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	1,084
Corporate debentures	164	2	9	158
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
Corporate debentures	6	-	-	6
Total securities held for trading	262	-	5	257
Total securities	7,686	47	90	7,643

	As of December 31, 2008			
	Amortized cost	Unrealized gains	Unrealized loss	Fair value (Balance sheet amount)
Securities available for sale:				
Debentures of the Government of Israel	6,237	57	110	6,184
Foreign government debentures	513	2	-	515
Bank debentures	1,572	4	61	1,515
Corporate debentures	158	1	17	142
Asset-backed debentures	110	-	27	83
Shares of others	332	55	7	380
Total securities available for sale	8,922	119	222	8,819
Securities held for trading:				
Debentures of the Government of Israel	424	13	-	437
Corporate debentures	3	-	-	3
Total securities held for trading	427	13	-	440
Total securities	9,349	132	222	9,259

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 as of December 31, 2009 (NIS in millions):

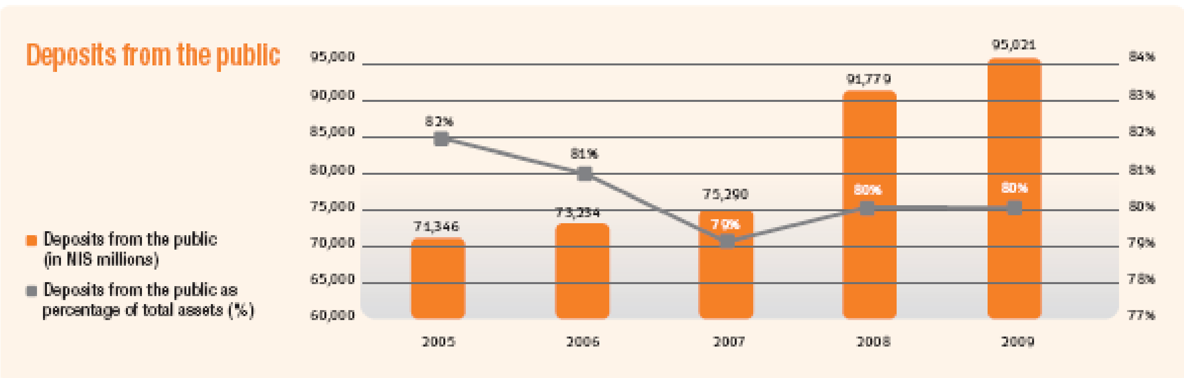
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
20%	-	-	-	-	-
20%-40%	-	-	-	18	18
Over 40%	-	-	-	-	-
Total	-	-	-	18	18
Other debentures available for sale					
20%	23	2	-	32	57
20%-40%	2	-	-	8	10
Over 40%	-	-	-	-	-
Total	25	2	-	40	67

See Note 3 to the financial statements for additional information.

Deposits from the public - these account for 80% of total consolidated balance sheet as of December 31, 2009, similar to their weight at the end of 2008. In 2009, deposits from the public for the Bank Group increased by NIS 3.2 billion, an increase of 3.5%.

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

	Balance as of December 31		Rate	Share of total deposits from the public as of December 31	
Linkage segment	2009	2008	of change (%)	2009	2008
Israeli currency					
Non-linked	51,851	49,273	5.2	54.6%	53.7%
CPI- linked	22,117	22,999	(3.8)	23.3%	25.0%
Foreign currency and foreign currency linked	21,053	19,507	7.9	22.1%	21.3%
Total	95,021	91,779	3.5	100.0%	100.0%



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

Operating segment	2009	2008	Rate of change
Retail banking:			
Household	45,964	(1) 46,170	(0.4%)
Small business	6,412	6,591	(2.7%)
Total	52,376	52,761	(0.7%)
Private banking	6,256	6,809	(8.1%)
Commercial banking	3,355	2,510	33.7%
Business banking	16,055	13,655	17.6%
Financial management	16,979	(1) 16,044	5.8%
Total	95,021	91,779	**3.5%**

(1) Reclassified.

For further details on deposits from the public and deposits from banks, see Notes 9 and 10 to the financial statements.

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 2009, the negative capital reserve, excluding related tax, decreased by NIS 60 million. The negative capital reserve from adjustment of securities available for sale to their fair value, after applicable taxes, as included in shareholders' equity as of December 31, 2009, amounts to NIS 32 million.

In the third quarter of 2009, the Bank conducted a buy-back of 2,500,000 shares at a cost of NIS 76 million. For further details, see Note 13.D.

The ratio of shareholders' equity to balance sheet total for the Group as of December 31, 2009 was 5.52%, compared to 5.18% as of the end of 2008.

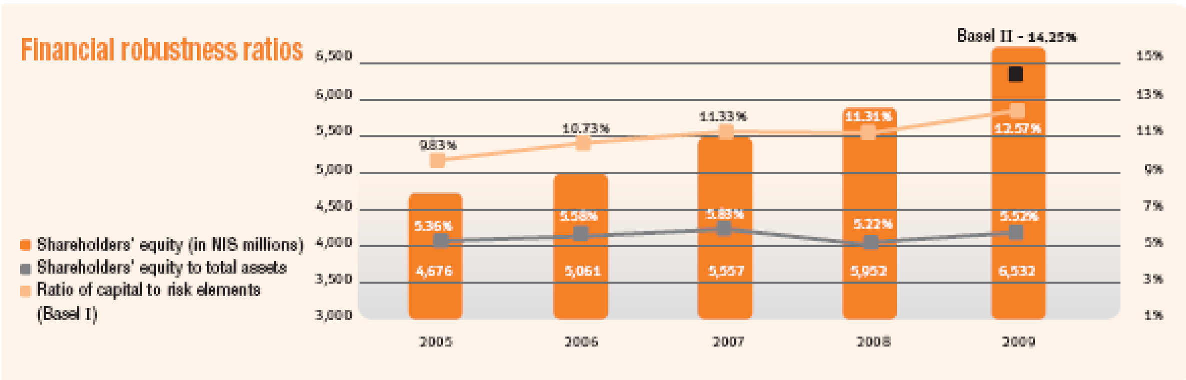
Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, any banking corporation is required to maintain a total minimum capital ratio of no less than 9% of weighted total of risk components of its balance sheet assets and off-balance-sheet items, and these instructions determine the manner of calculation of total capital and total risk components.

Starting on December 31, 2009, the ratio of capital to risk elements is calculated in accordance with Basel II rules.

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

	December 31, 2009		December 31, 2008
	Basle II	Basle I	Basle I
Ratio of Tier I capital to risk elements	8.01%	7.07%	6.64%
Ratio of total capital to risk elements	14.25%	12.57%	11.31%
Minimum capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%	9.00%



Below are key differences between capital ratio in accordance with Proper Conduct of Banking Business Regulations Nos. 311 and 341, and capital ratio in accordance with Basel II, for the Bank Group and for a significant subsidiary:

Supervisory capital

The Bank's supervisory capital in Basel II terms is lower than it is in accordance with Proper Conduct of Banking Business Regulation No. 311, primarily due to deduction of negative fair value adjustment of available-for-sale securities under Basel II from Tier I capital, unlike under Regulation 311. Furthermore, under Basel II, deductions were made from capital (50% from Tier I and 50% from Tier II) for investments in supervisory capital components of banking corporations and for investments rated B+ and lower.

Credit risk

The main reasons for the lower weighted risk credit balances are as follows:

- Housing credit, usually weighted under Basel II at 35% (loans with LTV ratio of up to 75%) or 75% (loans with LTV ration higher than 75%), compared with weights of 50% (loans with LTV ratio of up to 60%) or 100% (loans with LTV ration higher than 60%).
- Additional factors for counter-party credit risk, which apply to base asset amounts of derivatives, under Basel II are significantly lower than the conversion factor for derivative credit (10%) under Regulation 311.
- Under Basel II rules, additional collateral qualifies for set-off, primarily securities.

On the other hand, the decline in weighted credit risk balances is mitigated, primarily due to the following:

- Commitments whose original maturity is within 1 year are weighted, under Basel II, using a 20% credit conversion factor, instead of 0% under Regulation 311.
- Troubled credit balances with low provision rates are weighted, under Basel II, using a 150% factor, instead of 100% under Regulation 311.

Market risk

Upon transition to the new measurement rules, the Bank re-examined the definition of a negotiable portfolio, and made adjustments so as to reflect the Bank's asset and liability management. Consequently, the Bank's capital requirement with respect to market risk, measured under Basel II, decreased compared to its calculation pursuant to Proper Conduct of Banking Business Regulation No. 341.

Operating risk

Required capital with respect to operating risk was initially included in the supervisory directives for implementation of Basel II rules, whereas no such requirement existed under Basel I rules.

Major Investees

The contribution of investees to operating net profit (excluding amortization of goodwill) in 2009 amounted to NIS 82 million, compared with NIS 103 million in the corresponding period last year.

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

Bank Yahav is a private company. On July 10, 2008, the Bank concluded the transaction to acquire 50% of Bank Yahav's issued capital and associated rights, Bank Yahav became a subsidiary of the Bank and the former's financial statements were initially consolidated with the Bank's consolidated financial statements as of September 30, 2008. The total investment cost amounted to NIS 419 million, and the excess acquisition cost over the Bank's share of Bank Yahav's shareholders' equity as of June 30, 2008 amounted to NIS 91 million, representing goodwill, amortized over 10 years.

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 exceed the specified limit. Bank Yahav completed preparations for operating in accordance with the new license, subject to the policy of the Bank's Board of Directors on this matter.
After its acquisition by the Bank, in mid-2008, Bank Yahav started implementation of a work plan intended to expand its operations, improve availability of services provided by the bank to other regions of the country and enhance the range

of products offered at its branches – while benefiting from synergies with Bank Mizrahi-Tefahot. *Inter alia*, Bank Yahav acted to expand its branch network to 35 branches at the end of 2009, compared to 33 branches at the end of 2008. Bank Yahav also established a nation-wide call center in Jerusalem and five advisory centers. Nine mortgage counters were opened at Yahav branches in 2009, which offer Bank Mizrahi-Tefahot mortgages to Yahav clients. Two additional counters were opened in the first quarter of 2010.

In 2009, the Bank provided capital to Bank Yahav amounting to NIS 350 million, in exchange for obligatory notes issued by Bank Yahav to the Bank.

Bank Yahav's contribution to Group net profit in 2009 amounted to NIS 3 million, compared to NIS 8 million in 2008 (initially consolidated in the third quarter of 2008). Bank Yahav's net profit return on equity (average equity, as defined in the Supervisor of Banks' Public Reporting Directive) in 2009 was 4.4%, and average net operating profit return on equity was 4.3%, compared to 21.2% and 6.0%, respectively, in 2008. Bank Yahav's balance sheet total as of December 31, 2009 amounted to NIS 14,155 million, compared to NIS 12,697 million as of December 31, 2008. The balance of credit to the public as of December 31, 2009 amounted to NIS 5,195 million, compared to NIS 4,698 million at end of 2008. Public debt balances due to open credit card transactions at Bank Yahav, amounting to NIS 937 million and NIS 874 million as of December 31, 2009 and 2008, respectively, previously classified by Bank Yahav as off-balance sheet balances, were reclassified under Credit to the Public, against Other Liabilities.
See Note 6.E.3) to the financial statements for more information.

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 the Group's net profit in 2009 was NIS 45 million, compared with NIS 42 million in 2008.
Net return on equity reached 12.6% in 2009, compared to 14.2% in 2008.

Other investees operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by its infrastructure, contributed NIS 10 million to the Bank's profits in 2009, net, compared with NIS 5 million, net, in 2008.
In 2008, Bank Adanim contributed NIS 28 million to Group net profit. Since its consolidation, in early 2009, the contribution is included under Bank profit.

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 2009 amounted to CHF 2.4 million, compared to CHF 3.0 million in 2008.

Mizrahi Bank Switzerland's balance sheet total as of December 31, 2009 amounted to CHF 220 million, compared to CHF 129 million at the end of 2008.

Total loans to the public as of December 31, 2009 amounted to CHF 77 million, compared to CHF 72 million at end of 2008; total deposits at banks as of December 31, 2009 amounted to CHF 110 million, compared to CHF 46 million at end of 2008. Total deposits from the public as of December 31, 2009 amounted to CHF 144 million, compared to CHF 52 million at end of 2008; total deposits from banks as of December 31, 2009 amounted to CHF 24 million, compared to CHF 26 million at end of 2008.

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

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland), which owns United Mizrahi Bank Switzerland, to Group net profit in 2009, amounted to a profit of NIS 13 million, compared with a profit of NIS 19 million in 2008. Excluding the impact of changes in exchange rates, the company's contribution to Group net profit in 2009 amounted to a profit of NIS 8 million, compared to NIS 13 million in 2008.

Investment in non-banking corporations

The Bank has a department tasked with monitoring nostro investments made in non-banking corporations, and reviewing the value of these investments on an ongoing basis. Bank investments in shares in conjunction with investments in non-banking corporations in the nostro portfolio, have been made for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio. About 12% of these investments are negotiable and are stated at their market value, or in accordance with external valuations. The other investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment is made by the Bank.
Bank investments in non-banking corporations as of December 31, 2009 amounted to NIS 63 million, compared to NIS 352 million at end of 2008, as described below.

A. NIS 7 million (NIS 281 million as of the end of 2008) is with respect to negotiable investments presented in the available-for-sale portfolio. In 2008, NIS 276 million reflected the market value of shares pledged for indebtedness of a specific client, which were classified under Securities, in accordance with the letter from the Supervisor of Banks. These investments were realized in 2009.

B. NIS 33 million is with respect to participation units in various equity funds (NIS 36 million as of end of 2008).

C. NIS 12 million (NIS 11 million as of the end of 2008) constitutes the balance of the Bank's investment in Psagot Jerusalem Ltd., a private company that had purchased land in Jerusalem for development for residential construction, including an investment in capital notes that amounted to NIS 28 million as of December 31, 2009 (NIS 26 million as of the end of 2008). In addition, the Bank provided credit to Psagot Jerusalem Ltd., which as of December 31, 2009 amounted to NIS 25 million (as of the end of 2008 – NIS 30 million).

D. Investments in several different other corporations, which are stated at cost, the balance of the investment in which totaled NIS 11 million as of December 31, 2009, compared to NIS 24 million as of the end of 2008.

Bank net revenues from dividends and realized gains from investments in non-banking corporations, after provision for impairment, in 2009 amounted to NIS 114 million, compared to NIS 46 million in 2008.

International operations

General information regarding 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 described below.

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.

International presence – affiliates, products and clients

These are the different affiliates with business and specific issues of legislation and regulation for each affiliate:

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 i**n 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 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.

Legislation and regulation

The overseas affiliates are subject, inter alia, to the laws of the country in which they operate, and to the regulation of the relevant authorities in that country, as set forth below:

Subsidiary in Switzerland - The EBK – Eidgenossische Bankenkommission, the federal regulatory authority of Switzerland.

Subsidiary, UMTB Securities Inc. – the American Securities and Exchange Commission (SEC) and National Association of Securities Dealers (NASD).

Los Angeles branch - The State of California Financial Institution Department, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank. In accordance with the regulations of the Federal Deposit Insurance Corporation (FDIC), the Los Angeles Branch must hold "eligible assets", as defined in the regulations, at a rate of 106% of total liabilities. According to these regulations, a deposit in a bank that did not waive the set off agreement vis-à-vis the depositor does not meet the definition of "eligible assets". Therefore, the Los Angeles Branch has limited possibilities for depositing in the Bank in Israel. Furthermore, branch operations are subject to limitations of the US Bank Holding Company Act of 1956.

For details of the FDIC audit conducted in this branch in late 2007 and of the cease and desist order signed by the branch and by US regulators as a result of the audit findings, see chapter on Legal Proceedings.

London branch - the Financial Services Authority (FSA).

Cayman Islands branch - the Cayman Islands Monetary Authority (CIMA).

Mexico affiliate - Comision Nacional Bancaria y de Valores (banking regulators).

Uruguay affiliate - Banking regulation - Banco Central Del Uruguay.

Panama affiliate – banking supervision - Superintendencia de Bancos.

In view of the crisis in global financial markets, the Bank's overseas affiliates have tightened the means of control and reporting of exposures to the head office, including a comprehensive sweep of all accounts and clients, in order to better supervise and control the credit portfolio. Specifically, Bank exposure to entities directly and indirectly exposed to the global financial crisis have been mapped and evaluated. Furthermore, the Bank regularly monitors its exposure to foreign financial institutions, in accordance with directives of the Supervisor of Banks.

For details regarding risk management at the Bank, see chapter on Risk Management.

Affiliates operations in a competitive market

Bank affiliates overseas compete with local banks in their countries, with international banks and with affiliates of Israeli banks overseas. Competition is focused on the level of service and range of services provided to clients.

Each international operations affiliate has a unique target audience.

Critical success factors are based on providing global service at an international level. Service provided to clients is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive global market experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong client relationships, organizing professional events for select clients, intensive launching of custom products for clients and efforts to locate and recruit new clients on a day-to-day basis.

Business goals and strategy

The Bank develops its business world-wide, including expanded operations in existing affiliates and review of acquisition of financial institutions in designated target countries.

The Bank strives to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for launching unique products appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include future forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities in Israel and overseas, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Results of international operations are distributed, starting in 2008, among the different segments. Analysis of segment results below makes reference, *inter alia*, to the impact of assignment of international operations to the various segments, wherever such impact has been material.

Below are details of the impact of international operations on results of the different operating segments of the Bank Group (NIS in millions):

					All of 2009
	Household	Private banking	Business banking	Financial management	Total
					Reported amounts (NIS in millions)
Profit from financing operations before provision for doubtful debts	16	36	73	24	149
Operating and other revenues	1	42	7	14	64
Total revenues	17	78	80	38	213
Provision for doubtful debts	2	1	5	-	8
Other operating expenses - total	11	53	45	10	119
Pre-tax operating profit	4	24	30	28	86
Provision for taxes on operating profit	1	8	10	9	28
Net profit	3	16	20	19	58

					All of 2008
	Household	Private banking	Business banking	Financial management	Total
					Reported amounts (NIS in millions)
Profit from financing operations before provision for doubtful debts	16	53	53	(132)	(10)
Operating and other revenues	1	47	7	8	63
Total revenues	17	100	60	(124)	53
Provision for doubtful debts	-	1	2	-	3
Other operating expenses - total	11	46	42	9	108
Operating profit (loss) before taxes	6	53	16	(133)	(58)
Provision for taxes on operating profit	2	20	6	(51)	(23)
Net profit (loss)	4	33	10	(82)	(35)

Fixed assets and installations

Information on the Bank's fixed assets is presented in Note 7 – "Buildings and equipment" in the financial statements. See the section on IT systems and computers below for additional details.

Real property

The total area of the land owned by the Bank or leased by the Bank for its use, as of December 31, 2009, is 103 thousand m^2, as provided in the table below:

Type of property (1)	Gross area, thousand m^2, as of December 31, 2009		
	Owned	Leased	Total area
Branches throughout Israel	33.5	26.2	59.7
Offices and warehouses	27.4	10.4	37.8
Properties not in use, but have potential future use (2)	2.0	1.6	3.6
Properties not in use and designated for sale or to be vacated (3)	0.7	1.2	1.9
Total	63.6	39.4	103.0

(1) The Bank owns 2 lots which are not listed in the above table: A lot in Herzliya with a gross area of 1.3 thousand m^2 designated for sale, and a lot in Lod with a gross area of 4.7 thousand m^2 designated for future use (as described below). Furthermore, the Bank owns 6.1 thousand m^2 of parking space (both covered and uncovered) which is not listed in the above table.

(2) Some .5 thousand m^2 of the property not in use potentially to be used in the future, is leased to others, and 2.3 thousand m^2 of said property is undergoing renovations.

(3) Some 1.2 thousand m^2 of the properties designated for sale or to be vacated, are leased to others.

It is the Bank's policy to hold only those properties the Bank actually needs or expects to need in the future. The Bank regularly reviews the extent, attributes and location of required area, based on its business plan and nation-wide branch deployment plan, and makes the required adjustments.

On November 3, 2008, the Bank acquired land with an area of 4.7 thousand m^2 in the Northern Industrial Zone of the city of Lod. The Bank intends to construct on this lot a main building with gross area of 17,000 m^2 and a covered parking garage with a gross area of 12,000 m^2. This building would serve the Bank, *inter alia*, as a service center which will house, according to plans, primarily the Bank's major IT infrastructure and services, training operations, call centers and back-office operations.

As of the publication date of these financial statements, the construction permit has been obtained, the prime contractor has been selected and work has started on construction of the building framework. Construction of this building is anticipated to take 3 years.

This information is forward-looking information and is based on various assumptions and forecasts, *inter alia*, with regard to the economy, legislation, regulatory directives, technological developments, developments in the construction and real estate market and human resource issues. This information may not materialize, or may materialize in part, at the extent and date determined by Bank management, or due to possible changes in various influencing factors which are not entirely under Bank control.

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2009 amounts to NIS 843 million, compared to NIS 830 million at the end of 2008. The increase is almost entirely due to the investment in the lot in the city of Lod, as mentioned above.

Intangible assets

The Bank Group has data base entries of clients and employees.
The Bank owns the rights to the trademarks "Mizrahi-Tefahot", including in conjunction with the infinity symbol, "Tefahot No. 1 in Mortgages" and "Retirement Portfolio Based on a Nobel Prize Winning Model" – as well as variations of it. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Switzerland and in the European Union as well. Additional applications were also filed for registration of trademarks related to the Bank name in the USA.

Computerization and Operations in the Bank

IT services for Bank Mizrahi-Tefahot are provided by a wholly-owned subsidiary of the Bank - Mehish Computer Services Ltd. ("Mehish"). Mehish works to develop sophisticated IT systems and to continuously improve the level of the Bank's technology equipment.

The main site serving the Bank Group IT systems includes mainframe computers, servers, data storage systems, communications equipment, printers and terminal equipment, all serving as development and operational infrastructure of Mehish systems (see below under section - "Infrastructure and operation").

The Disaster Recovery Site (DRP), located separately, includes a mainframe computer, servers, storage, communications and terminal equipment (see section "Backup and Disaster Recovery" below).

Located in the Bank's branches spread throughout the country is equipment serving as the operational infrastructure of the branches: branch server, end user stations, communications equipment, printers and other special equipment such as: counters providing information for clients, scanners and check readers.

Computer services for Bank Yahav

Bank Mizrahi-Tefahot has acquired a controlling stake in Bank Yahav (50% of shares) from Bank HaPoalim.

Since the acquisition of Bank Yahav by the Bank, Mehish is acting to provide IT services to Bank Yahav, replacing the services provided to Bank Yahav by Bank HaPoalim. The first stage carried out is provision of checking account services at branches of Bank Mizrahi-Tefahot to clients of Bank Yahav.

Pursuant to the acquisition agreement, computer services were to have been transferred from Bank HaPoalim to Bank Mizrahi-Tefahot by the middle of 2011. In October 2009, the Bank conducted a review of the project to integrate Bank HaPoalim's systems, and consequently proposed that Bank Yahav would continue to receive computer services currently provided by Bank HaPoalim for a further period beyond the one specified in the acquisition contract, and that

Bank Yahav clients would continue to receive checking account services at branches of Bank Mizrahi-Tefahot. On November 29, 2009, the proposed outline was approved by the Bank of Israel, so that Bank Yahav would continue to receive computer services from Bank HaPoalim through December 31, 2015. In conjunction with this review, it has been decided that initially, the Bank would act to convert Yahav's computer systems to Mehish infrastructure.

Infrastructure and operations

The core banking systems are based on a mainframe platform manufactured by IBM. Most of the new projects are now being developed in the open environment of Windows and Linux platforms. In the open environment around the mainframes are close interfaces designed to transfer data between the two environments. The system operates on three mainframe computers and several hundred servers. Most of the updating of the core systems is done nightly, updating the data base for the current activity that occurred during that day and the main books of the Bank, in order to provide the Bank with updated data in preparation for the next day's opening.

Backup and disaster recovery

The Bank's disaster recovery policies are based on building the main systems in a backup site within a time frame of not more than 8 hours. To this end, a disaster recovery plan (DRP) was built, based on an agreement with IBM, to obtain backup facility services at the IBM site, combined with equipment owned by the Bank installed at the backup site. The solution includes a mainframe computer, data storage means, servers and 150 work stations. The data at the DRP site is updated in real time by the "hot backup" method. Several open systems, which were defined as having a low critical level, are not included at the backup site at this time. These systems use a "cold backup". In 2010, site expansion will continue and systems will be added, according to priorities to be set by the Bank. In order to ensure reliability of backup using the DRP site, and the ability to recover from disaster, drills are conducted semi-annually. In addition to the backup system, other means provide physical equipment security, in both the main site and the backup site: identification of leaks, identification of flooding, preventing electrical surges, etc.

Relocation of data center to Lod

Bank Mizrahi-Tefahot has decided to consolidate the Mehish data center services at a new site in the city of Lod. This data center would include the computer and telephony infrastructure currently located at the central site in Tel Aviv. Upon relocation to Lod, the Tel Aviv site would serve as a stand-alone DRP site for the Bank. For more information, see below under "Fixed assets and plant".

Information security

The Bank Group has a function for managing the security of applications and the network, which is responsible for data security, in accordance with Proper Banking Conduct Regulation 357, as follows:

- Realization of the Bank's policy on data security issued from a technology standpoint, including in overseas branches.
- Implementation of regulatory requirements related to data security.
- Immediate response to data security event.
- Approval of the transfer and removal of information, in accordance with the Bank's policy.

- Involvement in design and implementation of projects and project approval from information security standpoint.
- Developing infrastructures and management of data security projects.
- Information security policy for overseas branches.

The Bank is ISO-certified with regard to information security for direct banking. See the chapter on Risk Management for Bank policy on information security.

Vendors

Mehish has several significant suppliers of hardware and software infrastructure:

- IBM – hardware and software for mainframes in a server environment and for storage infrastructure, including maintenance services. IBM provides the main infrastructure in hardware and software for the core banking systems. IBM is a major international corporation, providing similar services, on an almost exclusive basis, to all major banks in Israel, and to most of the world's major banks.
- Microsoft – operating systems and infrastructure for servers, computerized office and end stations.
- CA – mainframe software.

Projects

The Bank Group, via Mehish, is pursuing multiple projects requiring major IT investment, which are in various development and deployment stages. These projects may be grouped as follows:

A. Projects under development:

  - Impaired debt management system - a system intended as response to directives of the Bank of Israel with regard to this issue. Development of this system has been completed, and it would be activated in 2010 for concurrent run and to produce estimates, with the goal of putting it into production starting in early 2011, pursuant to directives of the Bank of Israel.
  - Client Relationship Management system at mortgage branches - adaptation of the client relationship management system for use at mortgage branches. Emphasis is placed on processes designed to maximize client activities.
  - Transition of mortgage management from the old (TANDOO) system, to the new (SHOHAM) mortgage system - mortgages granted under the old system are transferred and managed on the SHOHAM system. The process is carried out in stages since early 2009, and is designated to be concluded in 2010.
  - Trading room operation system - the Bank intends to replace the current system used for operating the trading room, so as to adapt the computer system to the range of transactions and scope of operations. System review and selection, as well as formulation of the implementation method, are scheduled for 2010.

B. Projects put into operation in recent years, which are handled in conjunction with the regular work plan:

- Basel II - a system for calculating capital adequacy in accordance with Basel II rules, based on the Algorithmics risk management system. The system has been put into operation in early 2009 for the purpose of reporting to the Supervisor of Banks, and starting on December 31, 2009 it is used to produce capital adequacy data for financial statements.
- New branch system - the branch system developed using ".NET" technology has been deployed to and is operational at all Bank branches.
- Provident fund member operations - development of the new system using ".NET" technology has been concluded, which allows for a significant upgrade of provident fund operations. The system is being put into operation, using a controlled process, at fund managers in early 2010.
- -Pension advisory service – based on the CRM system and constitutes part of the Bank's preparations for providing pension consultancy for salaried employees and for the self-employed.

C. IT infrastructure development - investment in infrastructure development forms an important basis, allowing the bank to meet expansion of its business as well as development of new, state-of-the-art banking systems. This includes, *inter alia*, mainframe computer upgrade, server farm expansion and upgrade, storage system customization, communication system expansion and workstation replacement at branches.

Total investment in hardware and software (including capitalized cost of in-house software development) in 2009 amounted to NIS 174 million, and in 2008 - to NIS 172 million.

Off balance sheet activity

Provident funds – the Group provides operating services to provident funds. The asset value of provident funds to which the Group provides operating services on December 31, 2009 amounted to NIS 53.7 billion (of which NIS 20.8 billion via Bank Yahav), compared to NIS 41.3 billion as of December 31, 2008 (of which NIS 16.7 billion via Bank Yahav).

Client activity in securities – The value of the securities portfolios in Bank custody, held by clients, reached NIS 118.8 billion at the end of 2009 (of which NIS 6.6 billion at Bank Yahav), compared with NIS 75.8 billion at the end of 2008 (of which NIS 4.5 billion at Bank Yahav). The increase is due both to an increase in volume of operations and to higher security prices on the stock exchange.

Operations based on extent of collection – the Bank 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 credit balance from deposits based on extent of collection as of December 31, 2009 amounted to NIS 17.3 billion (of which NIS 1.1 billion at Bank Yahav), compared to NIS 18.3 billion at the end of 2008 (of which NIS 1.8 billion at Bank Yahav). These amounts exclude standing loans and government deposits extended for them. See Note 19.B to the financial statements for additional information.

Description of Businesses of the Bank Group by Operating Segment

Bank Group operating segments

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

The Bank's operating segments are:

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

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

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

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business clients are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

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

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

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

- **Banking and finance –** an array of banking services offered to private and corporate clients, including management of checking 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.

The principles used in assigning balances, income and expenses to clients in the system are as follows:

- Credit interest income and deposit interest expenses are directly attributed to the client. For credit, an expense set at cost of capital raised is attributed to clients, against an inter-segment credit to the Financial Management segment. For deposits, a revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Each of the segments is credited for capital attributed to operations there of, against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment (calculation through 2009 was made in terms of Basle I).
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Profit arising from changes to fair value of derivatives is attributed to Financial Management.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Provision for doubtful debts is directly attributed to clients for whom it is made.
- Commission- and other income is specifically attributed to clients.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.
- Provision for tax on operating profit is attributed to clients, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on average client risk assets (calculation through 2009 was in Basle I terms).
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

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.

Financial Information on Operating Segments

The Bank is one of the five largest bank groups in Israel. Below is information about the Bank's share, out of the five largest groups, of major balance sheet items, based on information made public as of September 30, 2009:

Credit to the public	14%
Deposits from the public	12%
Balance sheet total	11%
Shareholders' equity	10%

Since uniform rules have not been prescribed to allocate the clients to the segments, it is not possible to compare information regarding the Bank's pro rata share of the banking system in the different operating segments, in profit and return on capital.

Summary of financial results of operating sectors, as defined by the Bank, (reported amounts, NIS in millions) are as follows: See Note 31 to the financial statements for details.

Profitability

	Net profit (loss)			Return on equity (in %)		
	For the Year Ended December 31					
	2009	2009	2008	2009	2009	2008
		Less provision for voluntary retirement program			Less provision for voluntary retirement program	
Household						
Mortgages	256	268	265	10.2	10.7	12.8
Other	(51)	5	(1) 107	(6.7)	0.7	(1) 16.4
Private banking	27	30	(1) 40	40.8	45.3	(1) 70.9
Small business	24	41	(1) 57	7.3	12.5	(1) 13.8
Commercial banking	27	33	39	10.1	12.4	14.3
Business banking	198	211	162	10.7	11.4	8.9
Financial management	49	60	(1) (68)	10.1	12.3	(1) (14.3)
Total	530	648	602	8.5	10.4	10.4

(1) Reclassified.

Household segment

General information about the operating segment

The household segments mainly consists of individual clients, with low levels of indebtedness and relatively small-scale financial activity. Segment clients include those with individual accounts, joint accounts for two spouses etc. as well as mortgage borrowers. The segment is highly diversified, and is handled by the Bank's Retail Division.
In 2009, the Bank implemented a new, unique service, launched in December 2008 – the LIVE branches – which are branches providing personalized service during extended business hours using a range of communication channels between clients and bankers.

Products

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework

- Credit and debitory accounts – The credit limits for debitory account activity are determined according to the client’s needs, the level of his income and the judgment of the Bank based on factors including economic models. In accordance with Proper Conduct of Banking Business Regulation 325, clients are not allowed to exceed their determined credit limit.
- Investments – providing investment-related services to clients, such as: Various deposits for different terms.
- Loans – general-purpose loans which include, *inter alia*, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- Assistance in financing the purchase of vehicles – In recent years, activity in the area of loans to purchase autos from the importer, and it constitutes an important element of the segment’s activities. Within this framework, the Bank works together with several auto importers, while offering joint campaigns for financing the vehicle purchases by the clients.

Mortgages

The main services in the mortgage sector are loans from the Bank’s funds; additionally, the Bank is engaged in the mortgage sector in providing execution and clearinghouse services for loans provided by the State, including loans in conjunction with the Ministry of Housing and Construction Assistance Program. mortgage operations also include the offering of life and property insurance to borrowers (insurance incidental to the mortgage) via the Bank-owned insurance agency.

Volume of mortgages granted by the Household segment are as follows:

	Loans granted (NIS in millions)				Rate of change
	2009	2008	2007	2009 over 2008	2008 over 2007
Mortgages issued (for housing and any purpose)					
From the Bank's funds	13,140	10,667	7,465	23.2%	42.9%
From the Treasury's funds					
Directed loans	345	595	773	(42.0%)	(23.0%)
Standing loans and grants	182	228	166	(20.2%)	37.3%
Management for others	-	1	66	-	(98.5%)
Total new loans	13,667	11,491	8,470	18.9%	35.7%
Recycled loans	1,653	988	1,124	67.3%	(12.1%)
Total loans issued	15,320	12,479	9,594	22.8%	30.1%
Number of borrowers (includes recycled loans)	50,368	40,987	35,938	22.9%	14.0%

A description of the main mortgage services is provided below:

Loans out of Bank funds - loans out of Bank funds and at its risk, which it grants as free loans (which are not within the scope of the Ministry of Housing’s aid program) for the purchase of real estate, for construction, generally for the borrower’s residence. The loans are issued for a long term of up to 30 years, considering the kind of loan and repayment ability of the borrower.

The Bank issues credit in different linkage segments and uses a "combined mortgage" – a loan composition that combines the following elements or a part thereof: CPI-linked component at fixed or variable interest, non-linked shekel component and a foreign currency linked component. The combined mortgage enables the Bank to maintain profitability and spread risk to the client.

In view of the low Bank of Israel interest rates, in 2009 borrowers preferred to obtain loans in the non-linked, NIS-denominated sector, as well as adjustable-rate loans in the CPI-linked sector, where the interest rate is more attractive, compared to fixed-rate, CPI-linked loans. In 2009, loans in the foreign currency linked segment increased modestly.

Services within the Ministry of Housing’s assistance program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Housing recipients. These services include loans within the Ministry of Construction and Housing’s assistance program, including location-based loans, contingent grants and rental subsidies (until 2006), as provided below:

A. **Loans** - Beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection fee determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to special loans to eligible borrowers to be issued out of Ministry of

Finance funds, starting on July 1, 2004, which are significantly lower than the commission rate on loans issued until September 30, 2004. This agreement has been extended annually, most recently through June 30, 2010.

Bank revenues from all loans to eligible borrowers under State responsibility in 2009 amounted to NIS 98 million, compared to NIS 102 million in 2008.

For details of the agreement between the Ministry of Finance and banks, for provision of loans to eligible borrowers with low point rating out of Bank funds and under Bank responsibility, see Note 19.D.21).

In addition to ordinary loans in conjunction with the Assistance Program, there is a special arrangement for providing subsidized loans, issued by the Ministry of Housing and Construction under conditions that are updated from time to time, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans").

In the loans area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Housing and Construction eligible participants, such as issuance of eligibility certificates.

B. **Contingent grant** – A loan given as part of housing assistance that gradually is converted to a grant, subject to the conditions stipulated by the Ministry of Housing and Construction.

Life insurance and property insurance of borrowers (incidental to mortgages) – The vast majority of borrowers are insured in life insurance policies related to the loan, and most of the properties serving as collateral are insured in property insurance.

The borrowers so interested may join an insurance arrangement with one of the insurers with which the insurance agency owned by the Bank has an undertaking, or, alternatively, to make suitable insurance arrangements independently, provided that the policy is assigned to the Bank. It was practice of the vast majority of borrowers to take out property and life insurance, which are conditions for receiving the loans, within the framework of the Bank's arrangement through the Bank, and effective December 1, 2005, through an agency wholly-owned and controlled by the Bank, as provided below.

Marketing of insurance

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to housing loans are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

In order to maintain the required separation between the mortgage activities and insurance activities, special stations linked directly to the Bank-owned insurance agency were set up in the Bank branches that issue mortgages. At these stations, the client purchases life insurance and property insurance independently and produces the insurance forms necessary for taking out the loan.

The Bank's income from insurance incidental to mortgages (in NIS millions):

	All of 2009	All of 2008	All of 2007
Property insurance	40	38	42
Life insurance	78	79	72
Total revenues from sale of insurance	118	117	114

See Note 19.D.12 to the financial statements for class actions against the Bank related to the Group's insurance activities.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes distribution and operation services for mutual funds and provident funds, as well as management services prior to their sale.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, the clients are offered a range of credit cards. In this area, the segment works opposite credit card companies. The Bank offers its clients credit cards that are issued by these companies when opening a private account in the Bank, according to the client's request. Credit card companies, on their part, use the Bank as a conduit for distributing their cards to the Bank's clients. The Bank offers its clients almost all kinds of credit cards existing in the Israeli economy. The Bank also has several products in the credit card sector:

"**Tefahot Credit Card**" – the product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the client's repayment ability and the asset already pledged to the Bank, through which the client can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason. To this end, the client will be issued a unique credit card. The credit card charges will accumulate in the current account and be transferred periodically to the mortgage account.

"Free Student credit card" – this card provides students with general-purpose credit. Credit with this card may be used over 3 years and bears a special, attractive interest rate for the actual credit utilized. Credit payments are flexible, with initial repayment of principal and interest starting on the third anniversary of the card issue date (a 1-year extension may be applied for). Clients may repay early, in full or partial payment, with no fees or charges.

"The Card" - a branded credit card unique to the Bank. The Card provides unique promotions and activity focused on consumer and banking benefits. The objective of The Card is to reinforce relationships and extend activity with existing clients, as well as another means of recruiting new clients by the Bank.

For details of the agreement with CAL group, *inter alia*, with regard to issuance of the branded credit card, see Note 19.D.15) to the financial statements.

Unique Bank services

Under the household segment, the Bank offers its clients services which express the advantages of the combination of products described above. Within this structure, the Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Adanim and Yahav clients, based on their activity and attributes.

The unique services that the Bank offers its clients in the household segment include retail banking products and mortgage products, as provided below:

Executive Account – the unique brand, "Executive Account", launched in 2007 allows a preferred segment of individuals to make the most of managing their current account with Mizrahi-Tefahot. The brand emphasizes service, account management, bank value propositions, financial benefits and non-banking services provided to Executive Account clients. Clients may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft" – Set-off of debit and credit balances of a client during the month.

Benefits to mortgage holders – unique benefits offered to specific groups of clients who have a mortgage account with the Bank. The benefits included an interest-free facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the client's meeting other prescribed conditions during that month.

Pension advisory service - the Bank has started providing a pension advisory service to its own clients and those of other banks, both salaried employees and the self-employed. This is based on the computer-supported advisory model created by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

See the description of competition in the segment below for alternatives to these products.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations. Some of these recently published legislative arrangements impact activities of the Household Segment, is provided below:

Collateral liquidation – on November 4, 2008, the Court Order Execution Act (Amendment no. 29), 2008 was enacted. The amendment stipulates, *inter alia*, restrictions on liquidation of real estate serving, in whole or in part, as the residence of a debtor, and on evacuation of the debtor and their family members who share that residence. Furthermore, the act revokes, under certain conditions, the option to set conditions on the alternative housing protection. The amendment to the law becomes effective on May 6, 2009.

The amendment imposes additional expenses on the Bank in certain cases where financing of a residential apartment is required in order to collect on borrower debt.
As of the publication date of these financial statements, it would appear that the impact of this amendment on Bank Group operating results is not material.

Technological changes

See the chapter on Marketing and Distribution below for technological changes that occurred in the marketing and distribution areas.

Critical success factors in the Household Segment

The Bank is exposed to hundreds of thousands of mortgage-holding clients and clients in the deposits sector (c clients of the former Bank Tefahot), which constitute a natural target population for marketing additional products of the Bank. Expansion of the client base and broadening the array of services to clients in the Household segment, while exploiting the reservoir of the mortgage clients represents a critical factor for the success of this segment.

Furthermore, upon acquisition of 50% of Bank Yahav's issued capital by the Bank, and upon merger of Bank Adanim into the Bank, clients of Yahav and Adanim may strengthen operations of the retail segment when exposed to potential additional activity within the Group; for example, in the mortgage sector for Yahav clients and in checking and investments – for Adanim clients

Clients

The activities of the household segment are characterized by broad diversification of loans and deposits in the retail banking sector and of the loans portfolio among the hundreds of thousands of households that took out mortgages from the Bank over the years. Therefore, the loss of one client or another does not have a material effect on the overall activity of the segment.

Marketing and distribution

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through the direct banking system (Internet and call center).

Bank branches - the Group operates 166 business centers, branches and affiliates, including 35 Yahav branches. The Bank continues to improve branch deployment and to expand its points of sale, through measures including the addition of commercial activity to the mortgage branches and mortgage activity in the commercial branches. For details, see chapter on Branches.

Direct banking - the direct banking network includes call centers, the Bank's website, deployment of self-service terminals and provision of information via cellular phones.

- Call centers - client phone calls to Bank branches are automatically routed to the Mizrahi-Tefahot Call Center. This is due to Bank policy aimed at increasing sales capacity of the branches, expanding business hours and improving the quality and speed of service through the Call Center. The Bank operates call centers at two sites, in Tel Aviv and in Jerusalem.

- Website – in 2009 the Bank expanded the range of services available to clients in order to continued its policy of reducing client dependence on the actual branch. In 2009, IT improvements to the website were specified in order to continue improving the user interface of the system and to enhance client use of the website.
- The Bank's **automatic teller machines** constitute an additional marketing and service arm.

See the chapter on Marketing Operations below for additional information.

The Bank has no dependence on outside marketing and distribution parties in this segment.

Competition

Banking and Finance, credit cards and the capital market

With respect to this array of products, the number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the clients.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to clients, not through a bank. See below regarding entry and exit barriers.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

The Bank deals with the existing competition by aspiring to provide quality service and launching unique products. As aforesaid, the Bank believes that the Tefahot and Adanim mergers and the Yahav acquisition hold potential for expanding activities in the household segment, based on on-going activities vis-a-vis clients.

Mortgages

Most of the mortgage activity in Israel is conducted through 10 banks operating in this field. For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the loans portfolio. Based on Bank of Israel data, the Group's share of provision of housing credit, out of Bank funds and out of State funds in the mortgage sector, reached 35.9% in 2009, compared to 34.2% in 2008. Group market share, in terms of loan portfolio, is 35% at the end of 2009, compared to 34% at the end of 2008. The Bank's major competitors are Leumi Mortgage Bank, Bank Hapoalim and Discount Mortgage Bank. Insurance companies also compete in the mortgage sector. See below with respect to entry and exit barriers.

The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the

Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to clients.

The main entry barriers in this segment are:

- Client habits
- Regulatory limitations
- Minimum capital requirements
- Training professional personnel
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).

Cooperation agreements

- Several years ago, the Bank entered into an agreement with EMI – Ezer Mortgage Insurance Company Ltd. (“EMI”) – a company holding a license for mortgage credit risk insurance. Credit risk of some Bank clients, who obtain new loans in which the loan to value ratio is high, is insured by EMI. This insurance is intended to cover damage that the Bank could sustain in the event of a credit failure, if the proceeds from foreclosing the collateral are insufficient to cover the balance of the borrower's debt. The insurance is for the upper layer of the loan, so that EMI is meant to cover the first loss and then reduce (or absolutely prevent) a loss to the Bank in the event of realization at a loss.
- The Bank entered into a series of agreements with several companies that issue credit cards, principally Isracard Ltd. (since 1979) and Israel Credit Cards Ltd. (since 1995), that arrange the relations between the parties. Pursuant to the agreements, the Bank will take action to distribute the credit cards issued by the said companies to their clients. The agreements prescribe mechanisms for calculating the amounts to which the Bank is entitled for the activities of its clients in the cards issued, including based on the volume of usage by the Bank's clients of the credit cards of these companies. The agreements specify the manner in which the credit cards are to be used, the division of liability between the credit card companies and the Bank. Pursuant to the agreements, the Bank is entitled to appoint an overseer on its behalf, who will participate in meetings of the board of directors (including meetings of the board of directors' subcommittees, except for the audit committee) of Isracard.

  For details of the agreement signed with CAL Group, including a new arrangement whereby Bank-branded credit cards have been issued - see Note 19.D.15) to the financial statements.

Business goals and strategy

The Bank sees importance in continuing to develop the household segment as part of the Bank's future activities. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing market share by broadening the client base, mainly among the clients of the former Bank Tefahot, of Adanim and of Bank Yahav, as a platform for achieving growth in market share and income.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.

- Retaining Bank share of the mortgages market and expanding it, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and financial activities.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Making available different relationships with the client and nurturing cultivating the clientas an objective of the household segment.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.

Material systems on which the segment relies for developing its operations are:

- The CRM system (Client Relations Management), aimed at presenting all relevant information to the banker in order to offer appropriate products to the client and improve client relations.
- The Bank is deploying its new IT system in support of the process of mortgage origination and management. The new system enables, *inter alia*, use of online transaction processing and daily balance updates. The system would also enable flexible specification and day-to-day operation of the different mortgage products, would facilitate development of new, flexible products and would improve the Bank's competitiveness and capacity to quickly react to changes in the business environment. All Bank branches involved in mortgage processing have started using the new system. The Bank intends to operate the system in branches of the former Bank Adanim, merged into Mizrahi-Tefahot in early 2009.
- Over the past two years the Bank has upgraded its branch computer system, initiating use of ".NET" technology. This system positions the Bank in the top tier in terms of operations and service to clients and employees.

The results of the segment are exposed to a threat, due to reasons including the strong competition deriving from its attractiveness, since it is a segment in which the risk is low (due to the relatively high dispersal of clients). Additionally, the segment's results are affected by the entry of credit card companies into retail financing (see the chapter on competition above for information).

As srared above, the merger of Bank Tefahot, the merger of Adanim and the acquisition of the Bank Yahav holdings constitute an opportunity to broaden the Bank's client base and expand its operations in the household segment.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic development in Israel and internationally, especially the state of the economy, demand for housing and mortgages, legislation, directives of regulatory entities, the behavior of competitors (including non-banking entities), aspects related to the Bank's image, technological development, developments in availability and price of properties and staffing issues.

Results of Household Segment

	For the year ended December 31, 2009					For the year ended December 31, 2008				
	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	33	16	11	2,574	2,634	(410)	15	13	2,995	2,613
Inter-segment	647	(12)	-	(2,147)	(1,512)	1,164	(11)	-	(2,573)	(1,420)
Profit from financing operations before provision for doubtful debts	680	4	11	427	1,122	754	4	13	422	1,193
Operating and other revenues	202	130	215	256	803	(1) 177	(1) 90	(1) 144	259	670
Total profit	882	134	226	683	1,925	931	94	157	681	1,863
Provision for doubtful debts	70	-	-	24	94	(1) 55	-	-	42	97
Operating and other expenses										
From outside operating segments	1,256	30	63	270	1,619	944	53	45	217	1,259
Inter-segment	(102)	(3)	-	-	(105)	(98)	(8)	-	-	(106)
Total operating and other expenses	1,154	27	63	270	1,514	846	45	45	217	1,153
Operating profit (loss) before taxes	(342)	107	163	389	317	30	49	112	422	613
Provision for taxes on operating profit (loss)	(117)	37	56	133	109	12	18	42	157	229
After-tax operating profit (loss)	(225)	70	107	256	208	18	31	70	265	384
Minority interest in net after-tax operating profit of subsidiaries	(3)	-	-	-	(3)	(12)	-	-	-	(12)
Net profit (loss)	**(228)**	**70**	**107**	**256**	**205**	**6**	**31**	**70**	**265**	**372**
Net profit (loss), excluding impact of voluntary retirement program	**(176)**	**71**	**110**	**268**	**273**	**6**	**31**	**70**	**265**	**372**
Return on equity					**6.3%**					**13.7%**
Net profit return on equity, excluding impact of voluntary retirement program					**8.4%**					**13.7%**
Average balance of assets	12,595	2,266	-	45,085	59,946	(1) 7,937	(1) 2,247	-	39,350	49,534
Average balance of liabilities	47,572	7	-	82	47,661	37,962	7	-	(1) 63	38,032
Average balance of risk assets under Basel I	13,814	-	-	37,296	51,110	10,865	-	-	30,836	41,701
Risk assets (Basel II) (end balance)	13,370	-	-	23,886	37,256	-	-	-	-	-
Average balance of securities	-	-	22,132	-	22,132	-	-	(1) 21,413	-	21,413
Credit to the public (end balance)	12,772	2,674	-	48,648	64,094	(1) 11,319	(1) 2,462	-	41,593	55,374
Deposits from the public (end balance)	45,964	-	-	-	45,964	46,170	-	-	(1) -	46,170
Average balance of assets under management	7,099	-	-	15,682	22,781	3,788	-	-	16,561	20,349
Components of profit from financing operations before provision for doubtful debts:(1)										
Margin from credit granting operations	284	4	-	395	683	259	4	-	386	649
Margin from receiving deposits	314	-	-	-	314	429	-	-	-	429
Other	82	-	11	32	125	66	-	13	36	115
Total	**680**	**4**	**11**	**427**	**1,122**	**754**	**4**	**13**	**422**	**1,193**

(1) Reclassified.

Contribution of the household segment to Group profit in 2009, excluding the Bank's share of profit of Bank Yahav, initially consolidated in the third quarter of 2008, and excluding the provision for retirement agreement, amounted to NIS 270 million, compared to NIS 360 million in the corresponding period last year - a 25% decrease.

The main reason for the decrease in segment contribution is the impact on profit from financing operations, which was significantly eroded in 2009 due to low interest rates prevailing in the period. Profit from financing operations, excluding the impact of consolidation of Bank Yahav's financial statements, amounted to NIS 924 million, compared to NIS 1,051 million in the corresponding period last year - a decrease of 12.1%. The main decrease was in financing profit under banking and finance, which decreased by 9.8%, due to the significant extent of deposits from the public in this segment, which was most impacted by lower interest rates. The balance of mortgages to households increased by NIS 7.1 billion. Nevertheless, financing profit from mortgages increased by a modest 1.2%, primarily due to the impact of lower interest rates on revenues for loans granted out of Bank funds.

Operating revenues, excluding impact of consolidation of Bank Yahav's financial statements, grew by 7.5%. The growth (most all of it in household operations, excluding mortgages) is primarily due to higher revenues from capital market transactions and from new clients recruited in this segment.

Operating expenses, excluding impact of consolidation of Bank Yahav's financial statements, and excluding the provision for retirement program, grew in 2009 by 9.2% compared to the corresponding period last year.

The provision for doubtful debts attributed to the mortgage segment decreased in 2009 by NIS 18 million. On the other hand, the provision under Banking and Finance increased by NIS 15 million, primarily due to an increase in the provision with respect to individual borrowers.

Private Banking Segment

General information on the operating segment

Private banking is the concept of unique banking services geared to clients with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking clients at the bank are individual clients with liquid assets and security investments over NIS 2.5 million, and corporations with liquid assets in excess of NIS 8 million.

Financial consulting, which constitutes a significant part of the service offered to this operating segment, is provided to the clients of the segments who have signed consulting agreements. A response is also provided for other financial needs of these clients, while providing high-quality personal service and offering a range of advanced products.

The banks in Israel have invested substantial resources in recent years in the development and upgrading of the private banking services and in increasing their market share in this segment. This is due to the following factors:

- The potential in expanding business relationships with clients of a high socio-economic position assigned to this segment.
- Growing demand by clients of this segment for a high standard of professional and personal service, as prevails worldwide.
- Accelerated development of advanced investment products, such as: structured products, hedge funds, ETFs and others, as alternatives to traditional products (savings accounts, securities etc.)

In early 2009, responsibility for the private banking segment was transitioned from the Retail Division to the Financial Division. This is in line with management perception of the key components of servicing this segment.

Products

The products and services offered to clients of this segment are as follows:

- **Banking and finance –** A wide range of banking and finance products are offered to this segment's clients, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products including deposits and structured products.
- **Credit cards** - the Bank offers segment clients a range of credit cards issued by Israeli credit card companies.
- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) Also included are distribution services of mutual funds, as well as provident fund operation and, through the sale there of, management services as well.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

In January 2007, the Israeli Securities Authority issued guidelines with regard to clarification of (individual) client needs. According to the guideline, the Bank is required, within the scope of the consulting services it provides to clients, to question the client on the basis of a list of questions that constitutes part of the guideline. This is done, in order to learn the preferences and needs of the client.. The Bank is prepared to meet the requirements of the guidelines through the broadening and preparation of documents and forms suitable for clarifying the required details. For new clients, the guideline is effective starting in January 2008, and for clients who had signed advisory agreements prior to said date, the guideline is effective starting in July 2009. The Bank is acting in accordance with these guidelines.

Technological changes

See the chapter on IT Systems and Computers for the technological changes, including with respect to operation of provident funds and pension advisory service.

Critical success factors

The critical success factors in the Private Banking Segment include development of marketing and business activities that rest on the understanding of the clients' needs and on providing professional, fast and effective service that offers a comprehensive solution to the client's needs in all banking areas.

Clients

This segment serves clients with high financial wealth, mainly individual clients with liquid deposits and security investments exceeding NIS 2.5 million and business clients with such liquid balances in excess of NIS 8 million.

The client group served by this segment is heterogeneous, there are no material dependencies or relations between clients, so that the private banking segment is not dependent on any specific group of clients whose loss may materially impact its operations.

Marketing and distribution

In addition to the marketing and distribution activities through the Bank's private banking department and through the direct banking system, conferences are conducted for clients in this segment, according to select population segments and inquiries through direct mail in a special format.

Competition

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.

In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.

In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in the intensive introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

The main entry barriers in this segment are:

- Regulatory limitations
- Minimum capital requirements
- Training professional personnel
- Building and maintaining physical and technological infrastructure (IT systems, with emphasis on consulting systems and CRM).
- A supply of unique financial products.

Business goals and strategy

The Bank plans to continue to develop its global private banking network, based on centralized management, centers of professional support and cooperation between Bank affiliates and units in Israel and throughout the world.
The financial crisis in Israel and world-wide is a major threat for business results and development of this segment. However, ensuring continued provision of professional, reliable service and maintaining close relationships with clients, should allow the Bank to expand its activity with segment clients, as financial markets and the economy rebound.
This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, economic policy, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients’ financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Results of Private Banking Segment

	For the year ended December 31, 2009			For the year ended December 31, 2008 [1]		
	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	(38)	1	(37)	(155)	1	(154)
Inter-segment	79	-	79	215	-	215
Profit from financing operations before provision for doubtful debts	41	1	42	60	1	61
Operating and other revenues	22	33	55	17	44	61
Total profit	63	34	97	77	45	122
Provision for doubtful debts	1	-	1	1	-	1
Operating and other expenses						
From outside operating segments	53	1	54	56	1	57
Inter-segment	1	-	1	1	-	1
Total operating and other expenses	54	1	55	57	1	58
Pre-tax operating profit	8	33	41	19	44	63
Provision for taxes on operating profit	3	11	14	7	16	23
Net profit	**5**	**22**	**27**	**12**	**28**	**40**
Net profit, excluding impact of voluntary retirement program	**8**	**22**	**30**	**12**	**28**	**40**
Return on equity			**40.8%**			**70.9%**
Net profit return on equity, excluding impact of voluntary retirement program			**45.3%**			**70.9%**
Average balance of assets	1,762	-	1,762	1,440	-	1,440
Average balance of liabilities	6,596	-	6,596	6,367	-	6,367
Average balance of risk assets pursuant to Basle I	989	-	989	843	-	843
Risk assets (Basle II) (end balance)	848		848	-	-	-
Average balance of securities	-	6,584	6,584	-	5,481	5,481
Credit to the public (end balance)	1,368	-	1,368	1,350	-	1,350
Deposits from the public (end balance)	6,256	-	6,256	6,809	-	6,809
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	14	-	14	22	-	22
Margin from receiving deposits	24	-	24	35	-	35
Other	3	1	4	3	1	4
Total	**41**	**1**	**42**	**60**	**1**	**61**

(1) Reclassified.

Contribution of the Private Banking segment to Group profit in 2009, excluding the provision for retirement agreement, amounted to NIS 30 million, compared to NIS 40 million in the corresponding period last year, a decrease of 25%.

The decrease in segment contribution was primarily due to a 31.1% decrease in profit from financing operations, primarily due to lower interest rates which resulted in a significant decrease in spreads over deposits, as well as due to a decrease in operating revenues. On the other hand, expenses attributed to the segment decreased by NIS 3 million.

Small Business Segment

General information on the operating segment

The small business segment operates within the retail division, and mainly serves family-owned businesses and small business clients with relatively low turnover and total indebtedness of up to NIS 6 million. This segment is characterized by large client diversification. In view of the fact that the availability of data and their reliability regarding the clients of this segment is relatively low, there is a need for professional service and appropriate means of control, in order to assess the quality of the client for the purpose of issuing credit. Additionally, this segment is characterized by a high required-collateral percentage from the clients to ensure credit repayment.

Products

Banking and finance

Within the scope of this product, the Bank provides the following services:

- Loans for various purposes – loans against the discounting of checking/credit cards, business loans, etc.
- Import/export activities – foreign currency operations, adaptation of credit facilities to the nature of the client 's activities using technological means, such as: EDI on the Internet.
- Investments – an array of investment activities, such as: Various deposits for different terms.
- Management of checking account facilities – The facilities are determined according to the client 's needs, turnover and judgment of the Bank. According to the directives of the Supervisor of Banks, there will be no exceeding the approved facilities.

Credit cards - The Bank offers the clients of the segment an array of credit cards issued in Israel.

Capital market - This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes distribution and operation services for mutual funds and provident funds, as well as management services prior to their sale.

See below for information on alternatives to these products.

Legislation

A description of the normative framework applicable to the Bank is provided under the chapter Legislation and Regulation of Bank Group Operations. For changes in legislation and regulations designated to regulate Bank- client relationships, see also legislation section under description of the Household segment.

Technological changes

See the chapter on IT Systems above for the technological changes, including with respect to provident funds and pension consultancy.

Critical success factors

The critical success factors in this operating segment are personal service and providing banking solutions for the range of the clients's financial needs.

Clients

In the Small Business segment there is no dependence on a specific client or a limited number of clients.

Marketing and distribution

The main marketing and distribution factors in the segment are the Bank's branches and its direct banking tools. There is no dependence on outside marketing channels . For details of these marketing and distribution factors, see description of the household segment.

Competition

The existing competition in this operating segment is mainly within the banking system. Furthermore, activities of non-banking credit providers (insurance companies, non-bank credit cards and various financing companies) are available.
The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.

The main entry barriers in this segment are:

- Regulatory limitations
- Minimum capital requirements
- Training professional personnel
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Client habits – with emphasis on maintaining current relationships and reputation of banking institutions

Business goals and strategy

The Bank's business strategy consists of expansion of its operations in the small business segment, while constantly evaluating risk at the individual client level and for the entire sector and industry.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis clients, while segmenting the clients by occupation, size of operation and individual needs.
- Maximize potential profitability for each client by adopting a comprehensive view of client activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on client attributes.
- Expand geographic deployment of services provided to segment clients.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including GDP growth and impact of macroeconomic and geopolitical conditions, borrowers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, technological developments and issues of human resources.

Results of the Small Business Segment

	For the year ended December 31, 2009				For the year ended December 31, 2008			
	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	296	3	2	301	59	3	7	69
Inter-segment	(3)	(1)	-	(4)	262	(2)	-	260
Profit from financing operations before provision for doubtful debts	293	2	2	297	321	1	7	329
Operating and other revenues	164	12	23	199	(1) 151	11	(1) 19	181
Total profit	457	14	25	496	472	12	26	510
Provision for doubtful debts	72	-	-	72	(1) 79	-	-	79
Operating and other expenses								
From outside operating segments	423	3	3	429	374	2	4	380
Inter-segment	(43)	-	-	(43)	(41)	-	-	(41)
Total operating and other expenses	380	3	3	386	333	2	4	339
Pre-tax operating profit	5	11	22	38	60	10	22	92
Provision for taxes on From current operations	2	4	8	14	23	4	8	35
Net profit	**3**	**7**	**14**	**24**	**37**	**6**	**14**	**57**
Net profit, excluding impact of voluntary retirement program	**20**	**7**	**14**	**41**	**37**	**6**	**14**	**57**
Return on equity				**7.3%**				**13.8%**
Net profit return on equity, excluding impact of voluntary retirement program				**12.5%**				**13.8%**
Average balance of assets	4,894	36	-	4,930	5,435	35	-	5,470
Average balance of liabilities	6,136	-	-	6,136	6,317	-	-	6,317
Average balance of risk assets pursuant to Basrl I	4,892	-	-	4,892	6,188	-	-	6,188
Risk assets (Basel II) (end balance)	4,504	-	-	4,504	-	-	-	-
Average balance of securities	-	-	7,185	7,185	-	-	(1) 9,180	9,180
Credit to the public (end balance)	4,887	41	-	4,928	4,917	38	-	4,955
Deposits from the public (end balance)	6,412	-	-	6,412	6,591	-	-	6,591
Average balance of other assets managed	334	-	-	334	153	-	-	153
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	223	-	-	223	203	-	-	203
Margin from receiving deposits	35	-	-	35	76	-	-	76
Other	35	2	2	39	42	1	7	50
Total	**293**	**2**	**2**	**297**	**321**	**1**	**7**	**329**

(1) Reclassified.

Contribution of the Small Business segment to Group profit in 2009, excluding the provision for the retirement agreement, decreased by NIS 16 million, or 28.1%, over the corresponding period last year. Profit from financing operations decreased by NIS 32 million. The decrease in profit from financing operations resulted from the lower interest rates, which led to a significant decrease in margin on deposits, which was partially offset by an increase in margin on credit operations.

Operating expenses, excluding the provision for the retirement agreement, increased in 2009 by 6.5% over the corresponding period last year.

On the other hand, the decrease in provision for doubtful debts, by NIS 7 million, and the 9.9% increase in operating revenues moderated the decrease in segment contribution.

Commercial Banking Segment

General information on the operating segment

The Commercial Banking segment primarily includes operations involving medium-sized private and public companies (Middle Market), having medium turnover, ranging from NIS 30 to 120 million, and total indebtedness ranging from NIS 6 to 25 million. This is highly diversified over different economic sectors. Segment clients are served under responsibility of the Bank's Business Division.

Clients in this segment use a range of banking services, associated with a relatively high ratio of collateral compared to Business Banking segment clients.

Products

Segment clients are primarily offered services in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, including for working capital purposes: foreign trade services – importing, exporting, documentary credit; short and intermediate-term loans, bank guarantees, etc.; transactions in foreign currency, including trading in derivatives, as well as investment in deposits and in securities. The Bank is also expanding its operations involving provision of factoring services.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

Technological changes

For details of technology changes and projects undertaken by the Bank's IT department, see below under Information Systems and Computing.

Critical success factors

The critical success factors in the Commercial Banking Segment include development of marketing and business activity resting on understanding the needs of clients, and providing fast and effective professional services that offers a comprehensive solution adapted for all of the clients ' banking needs. This is done by offering diverse and innovative products while controlling the risk deriving from the segment's activities.

Clients

Segment clients are mainly medium-sized private and public companies (Middle Market) with medium turnover of NIS 30-120 million and total indebtedness from NIS 6-25 million. In this segment, there is no dependence on a major individual clients.

Marketing and distribution

The segment primarily engages in marketing and distribution using seven business hubs for which the Business Division is responsible, including a business hub specializing in settlement, as well as business centers and bank branches throughout Israel. There is no dependence on outside marketing channels .

Competition

The existing competition in this operating segment is mainly within the banking system. Activities of non-banking financing entities is small, and is mainly evident in factoring activities.

The Bank's main methods for dealing with the competition are to provide comprehensive professional solutions for the client 's needs, to maintain personal ties with the client, and tailor a professional solution for the client 's needs quickly and effectively.

Barriers to transition of clients to and from the Bank primarily arise from the difficulty in moving collateral from one bank to another, a significant factor in this segment which typically involves a relatively high level of collateral. In order to increase the market share in the segment, while dealing with the difficulties created by the barriers the segment on taking in new clients, the Bank is working toward formulating solutions based mainly on improving the standard of service, professionalism and rapid response to needs.

The main entry barriers in this segment are:

- Regulatory limitations on banking corporations – including per-borrower and per-group of borrower limitations, These limitations are primarily effective for smaller banks in Israel.
- Minimum capital requirements – requirements due to total segment volume of activity.
- Training and retaining professional manpower – the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical clients and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions.

- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Client habits – based on maintaining current relationships and reputation of banking institutions

Business goals and strategy

The Bank's business strategy emphasizes the expansion of the client base and growth in the activities of the commercial banking segment.

The Bank intends to continue expanding operations in this segment, primarily by recruiting new clients and expanding banking services to current and secondary clients. This is based on the range of products offered to segment clients, as described above.

The Bank will continue to operate, under the Business Banking Division, dedicated departments for serving clients of the various segments, assisted by regional business hubs.

In view of the financial crisis, in 2009 the Bank tightened account review and control, including a comprehensive overview of all accounts and clients, aimed at improving control of the credit portfolio.

In view of events in the capital market in 2009, and against the backdrop of the global financial crisis, the Supervisor of Banks directed all banks, in a letter dated October 12, 2009, to refer to the financial standing of sensitive borrowers, in order to identify debt requiring specific processing or special reference. The Bank has applied this directive, and has conducted a comprehensive review of credit portfolios by specified criteria, in a joint effort by business entities and by the Credit Control Unit, supervised by the Board of Directors' Credit Committee.

For details regarding risk management, see chapter on Risk Management.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, *inter alia*, GDP growth, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, borrowers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Commercial Banking Segment

	For the year ended December 31, 2009				For the year ended December 31, 2008			
	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	202	-	1	203	266	-	1	267
Inter-segment	(65)	-	-	(65)	(119)	-	-	(119)
Profit from financing operations before provision for doubtful debts	137	-	1	138	147	-	1	148
Operating and other revenues	36	3	9	48	(1) 36	3	(1) 9	48
Total profit	173	3	10	186	183	3	10	196
Provision for doubtful debts	14	-	-	14	25	-	-	25
Operating and other expenses								
From outside operating segments	67	-	-	67	54	-	-	54
Inter-segment	65	-	-	65	55	-	-	55
Total operating and other expenses	132	-	-	132	109	-	-	109
Pre-tax operating profit	27	3	10	40	49	3	10	62
Provision for taxes on From current operations	9	1	3	13	18	1	4	23
Net profit	**18**	**2**	**7**	**27**	**31**	**2**	**6**	**39**
Net profit, excluding impact of voluntary retirement program	**24**	**2**	**7**	**33**	**31**	**2**	**6**	**39**
Return on equity				**10.1%**				**14.3%**
Net profit return on equity, excluding impact of voluntary retirement program				**12.4%**				**14.3%**
Average balance of assets	4,097	2	-	4,099	4,829	2	-	4,831
Average balance of liabilities	2,259	-	-	2,259	2,103	-	-	2,103
Average balance of risk assets pursuant to Basel I	3,976	-	-	3,976	4,077	-	-	4,077
Risk assets (Basel II) (end balance)	4,710	-	-	4,710	-	-	-	-
Average balance of securities	-	-	1,897	1,897	-	-	1,599	1,599
Credit to the public (end balance)	4,196	2	-	4,198	4,542	3	-	4,545
Deposits from the public (end balance)	3,355	-	-	3,355	2,510	-	-	2,510
Average balance of other assets managed	42	-	-	42	36	-	-	36
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	94	-	-	94	101	-	-	101
Margin from receiving deposits	9	-	-	9	17	-	-	17
Other	34	-	1	35	29	-	1	30
Total	**137**	**-**	**1**	**138**	**147**	**-**	**1**	**148**

(1) Reclassified.

Contribution of the Commercial Banking segment to Group profit in 2009, excluding the provision for the retirement agreement, decreased by NIS 6 million over the corresponding period last year. Profit from financing operations decreased by NIS 10 million, while operating revenues remained unchanged. Operating expenses, excluding the provision for the retirement agreement, increased by NIS 14 million. On the other hand, the decrease in the provision for doubtful debts, by NIS 11 million moderated the decrease in segment contribution.

Business Banking Segment

General information on the operating segment

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with total indebtedness exceeding NIS 25 million per client and turnover in excess of NIS 120 million. This segment also includes the banking service group for companies in the construction and real estate sector. This is in line with the approach by Bank management concerning the segment assignment of real estate operations, and in line with serving these clients and with the Bank's organizational structure. The Bank's business division is in charge of serving clients of this segment.
In its activities in this segment, the Bank emphasizes improved profitability through expansion of activity in innovative financing areas with very high profitability relative to capital, mainly trading in derivative instruments.

Products

Banking and finance

Segment clients are offered a range of banking and finance products, including: Different types of credit – on call, short-term, intermediate-term and long-term loans, different types of guarantees; foreign trade activity – importing, exporting, documentary credit; financing of infrastructure products, mergers and acquisitions; and trading in derivatives.

Real estate

In this sector, the Bank offers credit to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with clients having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to clients of the real estate sector are:

Credit for construction - in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.

Financing for construction projects - construction project financing is a unique service, provided by the Bank exclusively to clients in this sector. Within this framework, the client is allocated a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects.
The Bank issues construction financing mainly by the financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.

Purchase group - a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on the land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.
The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations. Below we describe some of this legislation and other arrangements, which impact operations of the Business Banking segment.

Transactions with related persons – In accordance with Proper Banking Conduct Regulation No. 312 ("Transactions of Banking Corporation with Related Persons"), a limitation has been imposed on the Bank, whereby the Bank is permitted to grant credit to the category of "related persons" of the Bank, as defined in regulation, not to exceed 10% of the Bank's capital. Due to this limitation, the Bank stipulated in some of the agreements with clients who are part of this group, the credit may be utilized, in full or part, only if it does not cause deviation in the said limitation.

For details of criteria for transactions with controlling shareholders, set forth by the Audit Committee, see below under Transactions with Controlling Shareholders.

Financing an acquisition of means of control – The provisions of Proper Banking Conduct Regulation No. 323 ("Financing an Acquisition of Means of Control in Corporations") limit the balance of loans given to acquire the means of control in corporations, where the percentage of the financing for this acquisition exceeds 50% of the acquisition cost, at a percentage not to exceed 70% of the Bank's capital. Additionally, the regulation limits the balance of credit given by a banking corporation for an acquisition of the means of control of another banking corporation or a banking holding company, when the percentage of the financing of such an acquisition exceeds 30% of their acquisition cost, to the lower of 5% of the lending bank's capital or 5% of the capital of the acquired bank, or another rate that the Supervisor prescribes for a bank corporation with capital below NIS 500 million. This limitation is not effective with respect to the Bank's activity as of the date of the financial statements.

Industry limitation – The provisions of Proper Banking Conduct Regulation No. 315 ("Supplementary Provision for Doubtful debts") stipulate that when all the debt ("debt" –as defined in the regulation, after all the deductions permitted by the regulation are deducted from it) of a certain industry to the bank corporation (on an unconsolidated basis) exceeds 20% of the total debt of the public to the bank corporation, this excess will be considered as debt in deviation, for which the bank must make a supplementary provision for doubtful debts. This limit is evaluated on an unconsolidated basis. The amendment to a directive issued by the Supervisor of Banks in September 2009 stipulated that, with regard to the real estate sector, the Bank may choose to reach exposure of up to 22%, provided that exposure to infrastructure projects in the real estate sector shall not exceed 18%. This limitation is not effective with respect to the Bank's activity as of the date of the financial statements.

Limitations on debt of a borrower and a group of borrowers – In accordance with Proper Banking Conduct Regulation No. 313 ("Limitations on Debt of a Borrower and a Group of Borrowers"), a limitation has been imposed on the Bank, whereby the Bank is permitted to grant credit to a "borrower" or a "group of borrowers", as defined in the regulation, after certain amounts provided in the regulation were deducted from the debt, not to exceed 15% or 30% of the Bank's capital, respectively. The Regulation also prescribes that total indebtedness of the six largest borrowers and borrower groups in any bank will not exceed 135% of its capital. Due to this limitation, the Bank stipulated in some of the agreements with these persons that the credit may be utilized, in full or part, only if it does not cause deviation in the limitations per-borrower or per-borrower groups.

Securing home buyers – the Sale Law (Apartments) (Securing the Investments of Home Buyers), 1974 (hereinafter: ("the Sale Act" or "the Act") prohibits the apartment seller ("seller" and "apartment" as defined in the Act) to receive proceeds exceeding 7% of the price, unless the buyer is secured through one of the alternatives provided in the Act. One of the alternatives provided in the Act to secure apartment buyers is the furnishing of a bank guarantee under the Sale Act. The use of this alternative is very prevalent and accepted by companies engaged in the construction industry and contributes to the growth in the Bank's off-balance sheet credit risk.

Financial assistance - Proper Banking Conduct Directive no. 326 on Financial Assistance stipulates that a banking corporation shall not finance a construction project using the financial assistance method, unless a book of payment vouchers is produced and provided to the construction contractor for each apartment to be sold in the project. This is designed to secure funds of apartment buyers in project financed using the financial assistance method, and to ensure concentration of resources designated for project construction, and in particular proceeds from sale of apartments, in the project account designated for this purpose. These payment vouchers will be used for all payments to be made by the apartment buyer to the developer for the cost of the apartment. The regulation specifies the details to be included on each payment voucher. The regulation required the banking corporation to issue a guarantee to the apartment buyer for any amount paid by a payment voucher, or to ensure provision of other collateral pursuant to the Apartment Sale Act within 14 days from the payment date. Furthermore, the regulation sets forth arrangements for providing information to buyers with regard to matching of the project account to a specific project, and determines the details to be included in the assistance agreement with the developer in order to allow for implementation of the voucher system.

This regulation applies to financial assistance agreements signed on June 1, 2008 or later. The Bank complies with this regulation.

Basel II - the Business Division, which is in charge of the Business Banking segment, has prepared to implement provisions of Basel II, in conjunction with the Bank's overall preparation for this issue. The Business Division deals mainly with the credit aspects deriving from the provisions of Basel II and the related provisions. For details of the Bank's preparations to apply these regulations, see below under "Legislation and Regulation of Bank Group Operations".

Technological changes

See the Chapter on IT systems and computerization for information on technological changes and the computerization projects being carried out in the Bank.

Critical success factors

Critical factors for success in the Business Banking segment include a strong ability to analyze the clients' needs and their financial condition, including the identification of risk deriving from activity vis-a-vis the client, including as a result of expected changes in the economy and the industry in which he is engaged, and on providing professional, fast and effective service that offers a comprehensive and appropriate solution to the clients 's needs in all banking areas. This is done while offering diverse and innovative products while controlling risk due to any activity.

Clients

Segment clients include large business clients with sales in excess of NIS 120 million or total indebtedness in excess of NIS 25 million. Furthermore, according to Bank management's approach with regard to segment assignment of real estate operations, and in line with serving of these clients and with the Bank's organizational structure, the Business Banking segment includes all clients who receive banking services in the construction and real estate sector, even though they may have medium indebtedness levels. In this segment, there is no dependence on a major individual client.

Marketing and distribution

The main marketing and distribution parties in this segment are the managers and liaisons in the Business Banking Division, concurrent with the Bank's branches and business centers. The Bank has no dependence on outside marketing channels .

In order to provide an optimal response to segment client needs, the servicing of the business banking clients in this segment was placed under the Corporate Sector in the Bank's head office, divided into departments and teams having specific industry specialization. The teams are assisted, as needed, by consulting provided by professional Bank departments involved in factoring, foreign trade, capital market, derivatives operations etc. - in order to provide a comprehensive solution for client needs. Real estate clients are served by the construction and real estate segment, which is also part of the Business Division, and which operates, *inter alia*, via three regional business departments located at major activity hubs, the Purchase Group Department and 12 branches specialized in providing financial assistance.

Competition

Most of the competition in the Business Banking Segment is vis-à-vis the large and mid-sized banks in Israel, and for some services – the entire capital market. Entry by foreign banks and non-banking entities, mostly insurance companies, is focused on long-term credit. Note that in years prior to the financial crisis, the share of banks in financing the business sector in Israel declined significantly, despite the growth in credit granted to this sector. As a result of the financial crisis in Israel and overseas, this trend has been reversed - and the share of the banking system out of total balances has grown, based on data published by the Bank of Israel.

Alternatives for the products and services offered by the Bank to clients of the Business Banking segment include raising capital and debt through public and private offerings, and through the services provided by insurance companies. The capacity to raise such financing, as described above, had been restricted for a while due to the financial crisis, but recently, a recovery in raising financing in the non-banking market has been evident, with competition for credit is expected to grow.

The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the client 's needs.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the client's needs in a diverse array of its financial activities. As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business client and adapting it to the client's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to the competition within the banking and financial products, most of the competition in providing unique services to real estate and construction comes from the banking system. In recent years, non-banking entities entered into activities with the goal of financing projects in the industry. However, these entities are limited by the scope of activity and the services they are capable and permitted to provide. Thus for example, insurance companies often participate in project financing by issuing insurance policies to buyers in lieu of guarantees under the Sale Law, but they do so in cooperation with the banking system, usually by joint transactions with banks which are not among the five major banking groups. The independent activity of the small banks in the real estate industry is limited, mainly due to the limitations on borrowings of an individual borrower or group of borrowers.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the clients’ needs, readily available and fast service, and maintaining close and personal ties with clients. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

The main entry barriers in this segment are:

- Regulatory limitations on banking corporations – including per-borrower and per-group of borrower limitations, This is due to large credit volume required for operations in this segment.
- Other regulatory limitations – These limitations are related, *inter alia*, to certain activities. For example: non-banking entities are limited in their entry to independent activity in the real estate industry, as a result of the Sale Law, which requires, under certain conditions, the issuance of bank guarantees to the buyers of units in construction projects. Insurance companies are permitted to issue insurance policies to buyers, but they are not permitted to provide other services required by clients in this industry.
- Minimum capital requirements – requirements due to business activity volume.
- Training and retaining professional manpower – the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical clients and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions. These factors form a significant barrier to entry for financing providers wishing to launch operations in this segment.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).

Business goals and strategy

The Bank's business strategy in the Business Banking segment is directed toward maximizing the economic potential of the capital, based on the existing clients, by focusing on activities having high profitability relative to the capital needed for them, through, *inter alia*, the following activities:

- Implement an approach based on total outlook on the business client, leveraging credit products and offering other products to establish a comprehensive client relationship.
- Segment business clients by size, sector of operation and other attributes in order to optimally specify their business needs and to provide an appropriate, professional solution.

- Emphasis on profitability and return on uses, and transition to measuring return and risk pursuant to rules stipulated by Basel II recommendations on management of credit risk and operating risk.
- Review options for sale of loans or for long-term securitization of credit, for which it is difficult to maximize the return potential for allocated capital, and for credit which requires flexible management with regard to regulatory restrictions (primarily with regard to client indebtedness).

The risk in realizing the strategy set forth above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit is relatively low, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment clients exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank has assigned significant resources over the past year to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio. Credit applications are reviewed most diligently, including analysis of exposure under different scenarios.
For details regarding risk management, see chapter on Risk Management.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, *inter alia*, GDP growth, the capacity to raise funds in the capital market and demand for real estate, economic policy, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Business Banking Segment

	For the year ended December 31, 2009				For the year ended December 31, 2008			
	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	384	10	216	610	328	18	407	753
Inter-segment	16	-	(47)	(31)	9	-	(221)	(212)
Profit from financing operations before provision for doubtful debts	400	10	169	579	337	18	186	541
Operating and other revenues	179	28	8	215	[2] 99	[2] 38	9	146
Total profit	579	38	177	794	436	56	195	687
Provision for doubtful debts	190	-	4	194	144	-	36	180
Operating and other expenses								
From outside operating segments	183	2	39	224	156	1	33	190
Inter-segment	63	-	12	75	57	-	10	67
Total operating and other expenses	246	2	51	299	213	1	43	257
Pre-tax operating profit	143	36	122	301	79	55	116	250
Provision for taxes on operating profit	49	12	42	103	24	21	43	88
Net profit	**94**	**24**	**80**	**198**	**55**	**34**	**73**	**162**
Net profit, excluding impact of voluntary retirement program	**105**	**24**	**82**	**211**	**55**	**34**	**73**	**162**
Return on equity				**10.7%**				**8.9%**
Net profit return on equity, excluding impact of voluntary retirement program				**11.4%**				**8.9%**
Average balance of assets	20,353	-	6,264	26,617	16,999	-	6,359	23,358
Average balance of liabilities	13,831	-	1,427	15,258	12,700	-	1,101	13,801
Average balance of risk assets pursuant to Basle I	18,143	-	9,458	27,601	16,692	-	10,554	27,246
Risk assets (Basle II) (end balance)	19,554		12,681	32,235	-	-	-	-
Average balance of securities	-	48,933	-	48,933	-	36,310	-	36,310
Credit to the public (end balance)	14,640	-	6,021	20,661	15,540	-	7,159	22,699
Deposits from the public (end balance)	13,990	-	2,065	16,055	12,543	-	1,112	13,655
Average balance of other assets managed	11	-	113	124	10	-	109	119
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	239	-	120	359	175	-	[2] 141	316
Margin from receiving deposits	55	-	23	78	64	-	[2] 28	92
Other	106	10	26	142	98	18	17	133
Total	**400**	**10**	**169**	**579**	**337**	**18**	**186**	**541**

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

(2) Reclassified.

Contribution of the Business Banking segment to Group profit in 2009, excluding the provision for the retirement agreement, amounted to NIS 211 million, compared to NIS 162 million in the corresponding period last year, an increase of 30.2%.

The 7% increase in financing profit is primarily due to an increase in revenues from credit spread. Operating revenues in 2009 include gain from realized shares received as collateral for client debt, as well as dividends on those shares. Excluding net gain from investment in shares, and excluding dividends on shares, operating revenues increased by 1%.

On the other hand, the provision for doubtful debts increased in 2009 by NIS 14 million over the corresponding period last year.
Operating expenses attributed to the segment, excluding the provision for the retirement agreement, increased by 8.9%.

Financial Management Segment

Operations in the Financial Management segment cover several key areas: Management of Bank assets and liabilities, management of the nostro portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets. Additionally, the segment includes investment in shares in non-banking corporations. This is in line with management view of how these operations should be managed.

Operations of this segment are managed by the Financial Division, except for investments in non-banking corporations which, due to its nature, is managed by the Business Banking Division.

The sources of the activity in the nostro portfolio are the surplus Israeli currency and foreign currency liquidity. The surplus liquidity is surplus of the sources beyond the holding of liquid means against financing needs, as required in the liquidity model prescribed Proper Banking Conduct Regulation No. 342, the management of liquidity risks (see the chapter on Risk Management for details on the liquidity model and limitations of management and the Board of Directors). Segment operations are intended to maximize returns on investment of this surplus, subject to policy on market risk management, and within limitations imposed by the Board of Directors and by management with regard to exposure to market risk. Threshold criteria were also prescribed for nostro activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase its liquidity. The activity in the nostro account is subject to meeting the credit limits prescribed in the Bank for countries, banks and companies. The Financial Management segment operates in Israel and overseas.

As for management of market risk exposure, the Bank actively manages the negotiable portfolio in order to generate gain at the specified risk level. The Bank portfolio is regularly managed and monitored, so as to be optimally located in terms of risk vs. reward. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. For details concerning risk limits and management of market risk exposure, as well as implementation of a new, advanced system for risk management and for on-going exposure management - see below under Risk Management.

The Bank's activities in the financial management segment require that the Bank allot capital. capital requirements with regard to market risk, starting on December 31, 2009, is in conjunction with Basel II, Pillar 1 - which refers, *inter alia*, to interest risk in the negotiable portfolio, which is monitored using the standard model. capital allocation with regard to interest risk in the Bank portfolio is required in conjunction with Basel II, Pillar 2. The Bank manages this risk in terms of erosion of economic capital, under different scenarios of changes to interest rates.

The financial management segment functions as an activity that "clears" all of the Bank's trading activity, and leaves for those executing transactions a fixed margin, known in advance, that is calculated assuming full coverage of the transaction. The exposure to market risk remains in financial management. The prices at which the segment "buys" and "sells" sources and uses opposite the Bank's other units, for the purpose of their carrying out regular business activities, are the transfer prices ("shadow prices") of the Bank that are determined regularly by the financial management segment.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, *inter alia*, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter on Sources and Financing.

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivative instruments. The trading room also serves major clients trading in securities in Israel and overseas.

Business goals and strategy

The segment includes management of the nostro portfolio, management of exposure to market risk and liquidity management. Segment objectives in these areas are: active management of exposure and of the nostro portfolio, aimed at maximizing gain, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity limitations and minimum capital ratio objectives, as per a decision of the Board of Directors. This would be achieved by raising deposits in different linkage segments and for different terms, and by issuing various obligatory notes.

This segment also includes Bank operations in the trading room on financial and capital markets. The Bank intends to expand its operations in this area by expanding the client base and intensifying business activity and client relationships, *inter alia*, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. Also, professional staff engaged in this area and technological systems to support the different activities.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policy which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to clients whose financial strength may be particularly sensitive. For details of Bank exposure to foreign financial institutions, see chapter on Risk Management.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, *inter alia*, GDP growth, the capacity to raise funds in the capital market and demand for real estate, economic policy, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients’ financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Financial Management Segment results

	For the year ended December 31, 2009			For the year ended December 31, 2008 [1]		
	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	(1,331)	5	(1,326)	(1,264)	5	(1,259)
Inter-segment	1,533	-	1,533	1,276	-	1,276
Profit from financing operations before provision for doubtful debts	202	5	207	12	5	17
Operating and other revenues	106	38	144	100	23	123
Total profit	308	43	351	112	28	140
Provision for doubtful debts	-	-	-	13	-	13
Operating and other expenses						
From outside operating segments	238	9	247	204	9	213
Inter-segment	7	-	7	24	-	24
Total operating and other expenses	245	9	254	228	9	237
Operating profit (loss) before taxes	63	34	97	(129)	19	(110)
Provision for taxes on operating profit	22	11	33	(49)	7	(42)
After-tax operating profit (loss)	41	23	64	(80)	12	(68)
Share of net after tax profit of investees,	(1)	-	(1)	(1)	-	(1)
Minority interest in net after-tax operating profit of subsidiaries	(12)	-	(12)	-	-	-
Net operating profit (loss)	28	23	51	(81)	12	(69)
After-tax profit (loss) from extraordinary items	(2)	-	(2)	1	-	1
Net profit (loss)	**26**	**23**	**49**	**(80)**	**12**	**(68)**
Net profit (loss) excluding impact of voluntary retirement program	**36**	**24**	**60**	**(80)**	**12**	**(68)**
Return on equity			**10.1%**			**(14.3%)**
Net profit return on equity, excluding impact of voluntary retirement program			**12.3%**			**(14.3%)**
Average balance of assets	20,249	-	20,249	17,213	-	17,213
Average balance of liabilities	32,952	-	32,952	29,210	-	29,210
Average balance of risk assets pursuant to Basel I	7,550	-	7,550	8,569	-	8,569
Risk assets (Basel II) (end balance)	4,091	-	4,091	-	-	-
Average balance of provident and mutual fund assets	64,143	-	64,143	51,087	-	51,087
Average balance of securities	-	23,744	23,744	-	22,416	22,416
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	16,979	-	16,979	16,044	-	16,044
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	202	5	207	12	5	17
Total	**202**	**5**	**207**	**12**	**5**	**17**

(1) Reclassified.

The Financial Management segment, excluding the Bank's share of Bank Yahav's profit, initially consolidated in the third quarter of 2008, and excluding the provision for the retirement agreement, contributed in 2009 to Group profit NIS 48 million, compared to a NIS 68 million loss in the corresponding period last year. Excluding the provision for impairment, due to the global crisis in 2008, amounting to NIS 215 million, profit from financing operations in 2009 decreased by NIS 25 million, primarily due to the impact of the accounting treatment of derivatives measured at fair value and others. Operating revenues increased by 17.1% over the corresponding period last year.

In 2009, there was no provision for doubtful debts made in this segment, compared to a NIS 13 million provision in 2008, primarily due to implications of the financial crisis on this segment. Operating expenses, excluding the provision for the retirement agreement, was slightly higher, by NIS 1 million, over the corresponding period last year.

Human Resources

Staff – general information

Provided below is information on the number of employees, in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank workers provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mehish Computer Services Ltd. and Mizrahi Security Services Ltd. – service companies that provide computerization, security and protection services to the Bank:

						2009
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Group total
Number of full-time employees as of December 31, 2009	(1) 4,249	58	4,307	(2) 819	30	5,156
Number of full-time employees based on monthly average	(1) 4,135	63	4,198	(3) 806	29	5,033

						2008
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Group total
Number of full-time employees as of December 31, 2008	3,977	62	4,039	(2) (1) 927	25	4,991
Number of full-time employees based on monthly average	3,999	63	4,062	(3) (1) 539	26	4,627

(1) Number of staff employed at Bank Adanim in 2008 was 140 full-time positions (as of December 31, 2008), and 128 positions (monthly average). On January 1, 2009, Bank Adanim was merged into the Bank, and in 2009 its employees were merged together with Bank employees.

(2) Includes 729 Bank Yahav employees in 2009, compared to 710 employees in 2008.

(3) Includes 725 Bank Yahav employees in 2009, compared to an average of 339 in 2008, in which Bank Yahav was consolidated starting on July 1, 2008.

Below is a breakdown of the number of positions in the Group by operating segments (1):

	As of December 31,	
Operating segment	2009	2008
Household [(2)]	3,161	2,987
Private banking	123	126
Small business	807	784
Commercial banking	291	270
Business banking	491	491
Financial management	283	333
Total	5,156	4,991

(1) Includes Head Office employees that are allocated ratably over the various segments.

(2) Includes 729 and 710 Bank Yahav employees in 2009 and 2008, respectively.

Human resource management

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels: One is services to individual employees, from recruiting through ongoing services and up to retirement. The second level is in the Human Resource Development and Training department, in conjunction with development of the Bank's human resources in all aspects.

Human resource development and training - the Bank invests in development of its human resources and in constant improvement of the professional and personal skills of Bank employees and managers, by creating certification tracks for roles, promotion and development tracks as well as a range of training programs offered by the Bank's Training Center.

The Training Center is tasked with professional and managerial training, in accordance with requirements of various positions, and with knowledge refreshers by means of seminars; it also puts in place a course plan to cover knowledge gaps in various banking domains, managerial skills and in training for Bank systems. Significant emphasis is placed on managerial training as part of the personal development of managers. In this context, in 2009 the Bank started implementation of an integrative model for development of managers. This year, the Bank's Code of Ethics was deployed to all Bank employees. In addition, the Bank encourages achievement and expansion of academic education of its employees, as well as broadening their horizons via external workshops.

Training expenses in 2009 amounted to NIS 8.1 million, compared to NIS 7.3 million in 2008. Over the year, 3,200 Bank employees attended 11,000 training days (in 2008: 2,800 employees attended 11,400 training days). In conjunction with improvement of professional skills and improving efficiency of learning processes, the Learning Bank project was launched, in which branches receive each month study / training kits in the commercial and mortgage fields. In addition, 5 banking courses were developed and improved by using a mix of methods (remote learning), and eLearning kits on various subjects were distributed to all Bank employees.

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees, as stated below), which are expressed in two employee organizations:

A. The **Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which has authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("**Employees' Association**").

B. The **Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employee's Association as a "bargaining unit" for negotiation and signing agreements.

C. **Mehish Employee Committee** - the representing organization authorized to sign on behalf of employees of Mehish Computer Services Ltd. (hereinafter: "Mehish") any collective bargaining agreements which apply to Company employees (except for Mehish employees who are employed under individual contract).

D. **Bank Yahav Employees Committee –** The representative organization authorized by Yahav employees to sign collective agreements applicable to Yahav employees (except for Yahav employees employed under personal employment contracts).

Employment terms of employees represented by the Bank's Employees' Association

General

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Salary agreements

In December 2003, a salary agreement was signed for the period 2002-2004, which was effective through December 31, 2004. This agreement applies to all Bank employees, except for those employees who, on December 31, 2004, were employees of the former Bank Tefahot, which was merged with the Bank on January 1, 2005.
On January 18, 2006, a salary agreement was signed for the period April 1, 2004 through March 31, 2005, for those who on December 31, 2004 were employees of Bank Tefahot, and then became employees of the Bank.
On December 21, 2005 and on January 23, 2006, agreements were signed with regard to conversion of salaries of former managers and employees of Bank Tefahot, respectively, to the salary regime used at Bank Mizrahi, and the Labor Constitution was applied to said employees (hereinafter: ("salary conversion agreements").

No salary agreement has been signed yet for the period 2005-2009 (except with former Tefahot employees, for whom a salary agreement was signed for the period through March 31, 2005). The Bank records, as necessary, appropriate provisions for years for which no salary agreements have been signed.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank - see below under Individual Employment Contracts) are updated, in addition to cost of living adjustments in Israel, based on three key components:

A. Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The key component in this group is the base salary, and other components derived from the base salary, including the key Seniority Bonus - which is updated at the start of each year at a higher rate with increasing employee seniority, are also updated with these components and reach a 4% annual increment (to base salary) for Bank employees with over 26 years' seniority.

B. Components updated in accordance with changes in the Consumer Price Index.

C. Components linked to changes in external tariffs.

All of the components listed above apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employees' Association. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate. In a reality of low single-digit, or even negative inflation, these factors lead to an increase in real salaries, despite the absence of an update to the wage agreement.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank, about which Bank management decides each year, as well as via the bonus component. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the individual assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Pension and benefit arrangements

A. Bank liabilities for payment of pensions and severance pay to those employed by the Bank prior to the merger with Tefahot are covered by current contributions in the employees' names to pension, provident and severance pay funds. These contributions, as well as future amounts and a one-time amount deposited in the past, release the Bank from its statutory obligation to pay severance pay to those employees. See Note 16 to the financial statements for additional information.

B. Pursuant to the labor agreement signed between the Bank and its employees on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection. The loan agreements stipulated that the loan amounts are linked to the CPI plus real interest at the rate stipulated. It was also stipulated that if it became clear, on the repayment date of all of these loans, that the linkage and interest differences on the loans during the loan period exceeds the yield in a certain provident fund agreed upon – the employee will not be charged an amount exceeding the loan amount revalued according to this yield. If necessary, the Bank makes suitable provisions for these differences between the interest on the said loan and the yield of the provident fund, and for the tax implications, if any, on the reduction in the loans. The balance of the loans given to employees in this framework as of December 31, 2009 amounted to NIS 32 million.

C. Those who were employees of Bank Tefahot on the eve of the merger are covered by the Bank's obligations to pay pension and severance pay by regular deposits in the employees' names to pension, benefit and severance pay funds as well as one-time deposits. These deposits release the Bank from the obligation make severance and pension payments for the period commencing February 1, 2006, for those employees who were included in the salary conversion agreement. with respect to its liability through February 1, 2006, the Bank paid all the amounts required to cover the liability, by a deposit in pension and provident funds See Note 16.B-H to the financial statements for information on the special liability for retirement of employees in the Bank or the former Bank Tefahot.

Special collective bargaining agreement

On April 11, 2006, the Employees' Association and the Bank signed an agreement to end the labor dispute, declared with regard to the merger with Bank Tefahot ("special collective bargaining agreement"). Provisions of the special collective bargaining agreement shall be in effect until December 31, 2010 ("term of the special collective bargaining agreement"). It stipulates, *inter alia*, that during the term of the special collective bargaining agreement, all of the disputes will be resolved by the mechanisms prescribed, the objective of which is to prevent the striking of the Banks' activities and applying to the relevant bodies, in order to reduce the deviations prescribed in the agreement (such as in the event of a strike of the entire economy). Therefore, throughout the term of the special collective bargaining agreement, labor unrest will be avoided, whereby the Association has undertaken that it will not go on strike. Due to the signing of the agreement, the parties to the agreement withdrew the legal proceedings between them that were outstanding and pending.

The special collective agreement prescribed a mechanism for integrating the Bank's employees in their new positions within the scope of the merger, and the Bank has undertaken that throughout the special collective loan period it will not take any dismissal measures against permanent employees of the Bank because of financial needs. However, the Bank may terminate permanent employees due to regulatory needs or disciplinary problems ("individual termination"). The parties also agreed that during the term of the special collective bargaining agreement, the Bank could terminate up to 50 permanent employees due to incompatibility, in accordance with the special collective bargaining agreement. Moreover, the parties agreed on a voluntary retirement program for up to 200 employees during the term of the collective bargaining agreement, all as provided in the special collective bargaining agreement. In 2006 the Bank made a provision of NIS 208 million, based on management estimates of the cost of the voluntary retirement program.

The agreement further stipulates that unlike prior to the agreement, Bank employees may choose whether or not to be members of the Employees' Association (note that collective agreements signed by the Bank and the Employees' Association also apply to any employees who are not members of the Association). The collective agreement also increased the quota of employees that may be employed under personal agreements. Furthermore, under the terms of the special collective bargaining agreement, the parties agreed to establish a collective bargaining unit for managers, as defined therein, alongside the collective bargaining unit for all Bank employees (regarding the agreement between the Manager Council and the Bank, see below).

On September 16, 2009, a special collective bargaining agreement was signed with the employee union, whereby the special collective bargaining agreement signed in 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.
Highlights of the agreement, as for the old agreement, are as follows:

- Extension of the "employment constitution" through December 31, 2015.
- Maintaining absolute calm labor relations during the agreement period. The obligation to maintain calm labor relations shall not apply in case of a labor dispute involving all bank sector employees in Israel.
- Specification of dispute resolution mechanisms: negotiation, facilitation, arbitration.
- The Bank committed not to terminate for economic reasons any permanent employees during the term of the agreement. This commitment does not apply to individual termination for cause, incompatibility or regulatory changes.
- Enactment of a voluntary retirement program by up to 200 employees during the term of the agreement, starting in 2011. Management has the right to veto any specific voluntary retirement application without being required to provide any justification.
- Management has the option of terminating up to 50 permanent employees during the term of the agreement period, for incompatibility reasons, starting in 2011.

According to management expectations as of the publication date of these financial statements, with regard to the number of employees expected to retire and the cost of their retirement, the cost of the retirement agreement is estimated at NIS 170 million, and this was included under Payroll and Associated Expenses in the second half of 2009.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Salary Agreements

A. On April 10, 2006, the Manager Council and the Bank signed a special collective bargaining agreement in which the Bank and the Manager Council ratified the pact (hereinafter, together with previous agreements between the parties: "manager constitution"), in which the Bank recognized the Manager Council as a collective bargaining unit, within the scope of which principles were prescribed according to which the Bank would act to promote Bank managers' ranks. The manager constitution prescribed, inter alia, mechanisms for resolving disputes through arbitration, limitations on the number of managers to be employed under individual contracts and financing of the Manager Council (the Bank has undertaken to transfer an annual sum of NIS 250 thousand or 30% of the amount to be paid to the Employee Association, whichever is higher). The Bank has undertaken that the salary agreements and employment terms of members of the Manager Council will be determined in negotiations with the organization (although the organization has the right reserved to it, as long as a salary is not signed between it and the Bank, to adopt a salary agreement entered into with the Employee Association, instead of negotiating with the Bank or continue it).

The parties also stipulated that the manager constitution will be in effect until September 19, 2008. If the organization does not cancel it until one month of days previously, the effective period of the constitution will be extended until September 19, 2011, and thereafter, for a two-year period each time, unless one of the parties gives written notice of its cancellation, all in accordance with the mechanism prescribed in the manager constitution. For details of extension of validity of the manager constitution through December 31, 2015, see section D. below.

B. By virtue of the pact and the collective agreement to ratify the pact signed between the Bank and the Managers Council (see below), the collective agreements signed between the Bank and the Employees Council signed until September 19, 2005 apply to the managers, as well as all the agreements that were and will be signed between the Bank and the Managers Council from September 19, 2005 and thereafter.

C. On March 22, 2007, the Manager Council and the Bank signed a salary agreement for 2005-2007, wherein the parties agreed on the annual salary raise for managers, payment of seniority bonus, management fee and a non-recurring bonus granted to all managers. The agreement further stipulates that the Manager Constitution shall be effective through September 19, 2011, and while it is in effect, no permanent manager with the Bank shall be terminated for economic reasons (as defined in the Manager Constitution), except for individual termination (for cause and/or incompatibility) not to exceed 8 managers for incompatibility, or termination due to regulatory changes unknown to the parties as of the date of signing the agreement. Upon expiration of the labor constitution, the commitment for non-termination for economic reasons shall expire, as set forth above.

Furthermore, the agreement stipulates that the Bank shall establish a voluntary retirement program for managers. In each year during the term of the agreement, management would declare a period in which voluntary retirement would be possible, based on the overall framework set forth in the employee retirement program.

D. On August 19, 2008, a special collective bargaining agreement was signed with the Manager Council whereby managers may choose to receive a seniority bonus under the new format, which is updated based on success benchmarks and on the Bank's return on equity. Furthermore, this agreement contains an extension of validity of the Manager Employment Constitution through December 31, 2015, as well as a commitment by the Council not to engage in labor unrest through this date, except in case of Bank operations being merged with another bank during the term of this agreement.

E. On March 5, 2009, a wage agreement was concluded with the Manager Council for the period 2008-2010. This agreement primarily consists of gradual expansion through July 2014 of the base used for making deposits to study funds, as well as payment of certain annual amounts by monthly installments.

Pension and benefit arrangements

A. Managers who were employees of Mizrahi Bank on the eve of the merger with Bank Tefahot are covered by the Bank's obligations for the payment of pension and severance pay, by current contributions in the employees' names to pension, provident and severance pay funds, and all the aforesaid in the previous paragraph regarding the Employees Council applies to them.

B. Managers who were employees of Bank Tefahot on the eve of the Tefahot merger are covered by the Bank's obligation for the payment of pension and severance pay, by regular deposits on behalf of employees to pension funds, provident funds and severance pay funds, and non-recurring deposits. These deposits release the Bank from its obligations for the payment of severance and pension for the period as from January 1, 2006, for whoever was a manager on that date. with respect to its liability through January 1, 2006, the bank paid all the amounts required to cover the liability, by a deposit in pension and provident funds

Employment terms for Mehish employees

The employment terms for employees of Mehish Computer Services Ltd. (hereinafter: "Mehish") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Employees Council of Mehish, the Labor Union and the Company over the years, the key points of which are provided below:

A. Salary updates for Mehish employees are determined according to a linkage model for salary increments and for changes in the provisions given to employees of the Bank (the parent company). If in a certain year, a salary agreement is not signed by the Bank by the end of March in the subsequent year, Mehish employees would be entitled to an advance that will be calculated according to the agreed mechanism, which would be reviewed by independent experts. The balance of the salary increase would also be calculated by an agreed mechanism soon after signing the Bank's salary agreement. It was also stipulated that if the terms of the salary agreement include a new salary increment and/or salary element that was not included in the linkage model, negotiations will be conducted with representatives of the employees regarding the increments to be given to Mehish employees.

B. The labor constitution prescribes the maximum quota for contracted employees, pursuant to the undertaking between Mehish and outside vendors, which make workers available to Mehish, and under the professional management of Mehish. In this connection, it should be noted that disputes have arisen in the past between the Company's management and the Employees Council regarding the quota of contracted employees and the outsourcing of projects. On December 29, 2003, a labor dispute was announced in the company. On March 31, 2004, the parties signed an agreement to end the labor dispute, in which certain conditions were stipulated with regard to the company's undertakings with outside vendors and in outsourcing contracts. However, the parties agreed that the said agreement does not exhaust the dispute regarding outsourcing and that each party reserves for itself all the rights and claims in this matter.

C. Similar to employees of the Bank, the obligations of Mehish to pay pension and severance payments to its employees, except for a limited group of employees for which a provision was made, are covered by regular deposits in the name of the employees to pension, provident and severance pay funds, in accordance to the provisions of the collective agreement applicable to these employees.

D. On January 11, 2007, a collective agreement was signed between the management of Mehish and the Employees Council which contains a voluntary retirement program. The plan provides for retirement in an early retirement track, for employees, who on their retirement date will be at least 55 years old and are insured in managers' insurance or an aggregating pension fund, or an increased severance pay track for other employees. The final decision on acceptance or rejection of the request for early retirement rests with the general manager of Mehish.

In 2006 the Bank made a provision of NIS 25 million, based on management estimates of the cost of the voluntary retirement program.

E. On March 8, 2007, the Employee Association, Manager Council, Mehish Workers Council and the Bank signed a special collective bargaining agreement which sets terms for integrating the computer employees of Tefahot (except for a small group of employees) into Mehish. The agreement prescribes the format in which the terms of the computer employees of the former Tefahot will be converted and adapted to the terms prevailing in Mehish. Pursuant to this agreement, the collective bargaining agreements applicable to Mehish employees, including the Labor Constitution infrastructure at Mehish from 1989, as well as any new collective bargaining agreement to be signed, will apply to the Tefahot employees who have been integrated.

Individual employment contracts

The labor agreements signed by the Bank in the years 1995, 1998, 2003 and 2006, stipulated that the Bank will be permitted to enter into personal employment contracts with senior employees, as defined in the agreements, and several personal employment contracts with certain officials. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include full provisions for the severance bonuses accrued through the balance sheet date. See Note 16 to the financial statements for additional information.

For further information about employment terms of the Bank President – see Note 16.E. to the financial statements.

Employees of Bank Adanim

Most branch employees of Bank Adanim continue to hold similar positions at Mizrahi-Tefahot; most headquarter staff of Bank Adanim hold identical or similar positions. Bank Adanim employees who were no longer employed by Bank Mizrahi-Tefahot as a result of the merger, enjoyed improved retirement benefits – identical to those offered to Tefahot employees who retired upon the merger with Bank Mizrahi, even though Adanim employees were not party to a collective bargaining agreement.

Employees of Bank Yahav

Overview – Labor Agreements

The employment terms and conditions of Yahav employees are set forth in collective bargaining agreements. A special collective bargaining agreement was signed in March 2004.

In December 2007, Bank Yahav management and employee union signed an agreement aimed at specifying the compensation system at the bank for the period 2008-2012. Pursuant to this agreement, the employees are eligible to receive an annual bonus and ranking at variable rates based on the ratio of net profit return on bank capital. This agreement places stronger emphasis on the variable component of compensation, depending on bank performance, which reflects the importance associated by bank management and employees with a stronger link between employee performance and compensation.

On July 14, 2008, an agreement was signed by Yahav management and the employee union, concerning safeguarding of the bank's independence. This agreement is for a 5-year term, and it stipulates that the collective bargaining agreements currently in place at Yahav would also be extended by an additional 5 years.

Severance pay and pensions

Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident funds in the name of the employees. The bank customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

As for senior executives, the bank has committed to release to them the severance pay component accrued in the pension fund, in addition to their final salary multiplied by their number of years in service. In addition, Yahav has committed to pay senior executives' salary during an adjustment period, should their employment be terminated by the bank. An appropriate provision with respect to these obligations has been made on the financial statements.

Cashing of unused sick days

Retiring employees are entitled, under the labor agreement, to partial cashing of unused sick days. Bank Yahav has included a proper provision in its accounts, based on an actuarial assessment.

Jubilee bonus

Yahav employees are eligible to receive a Jubilee bonus upon completion of 25 years of service, and bank retirees are eligible to receive holiday gifts. Bank Yahav has made a provision for the Jubilee bonus and for holiday gifts to retirees based on an actuarial assessment.

Stock Options

On February 27, 2005, the Bank's board of directors resolved to adopt an option plan for employees and officers of the Bank and its subsidiaries, pursuant to which will be allotted 12,000,0000 options, exercisable for 12,000,000 ordinary shares, NIS 0.1 par value each, of the Bank. The options were allocated on a differential basis, in accordance to a "quality ranking", by which each manager was evaluated. On March 2, 2009, the exercise period of these options was extended by a further two years. See Note 16.A.3 to the financial statements for details.

On May 19, 2008, the Bank Board of Directors resolved, after obtaining approval of the Bank Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries. On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank Audit Committee, to extend the exercise periods of all option warrants allotted in accordance with the plan and the framework, and which would be allotted thereby in the future, by 24 months.

The reasons indicated by the Bank's President for approval of this plan, as adopted by the Compensation and Management Committees, the Audit Committee and the Board of Directors, included, inter alia, that the option plan is a major component in providing an incentive to employees to achieve the Bank's objective under the strategic 5-year plan for 2008-2012 (for details, see chapter on Business Strategy). It was also noted that the eligibility formula for exercise, as set forth in the option plan, provides an appropriate incentive to employees to continue their service to the Bank in coming years, and creates a direct connection between the Bank's annual rates of return in 2008-2012 and benefits for which the offerees would be eligible pursuant to terms of the option plan.

On June 8, 2008, an outline report was published to employees, and on July 8, 2008, 28.6 million options were allotted pursuant to the stock option plan. In view of the update to the strategic plan, as set forth above, and in view of management estimate whereby the rate of eligibility of each offeree to exercise the options granted to them under the stock option plan, would be lower than estimated by Bank management upon approval of the stock option plan, the Board of Directors decided that the exercise period of options should be modified, by extending it in line with expected changes in the Bank's course of business. This would reduce, *inter alia*, the expected impact of circumstances leading to the update of the strategic plan, all in order to maintain the incentive to employees, including officers of the Bank, inherent in the stock option plan upon its approval. On November 24, 2008, the exercise period of these options was extended by a further two years.

For further details of the theoretical benefit value of the option, see Note 16.A.3.

For details of the stock option plan for Bank President and for Bank officers, see Note 16.A.

Bank remuneration policy

On April 5, 2009, a letter was received from the Supervisor of Banks, instructing banks to adopt an appropriate remuneration policy by December 31, 2009. In accordance with the letter, the Board of Directors is required to set remuneration policy, based on a set of principles stipulated by the Supervisor. After setting policy, the Bank is required to review existing agreements, and to act in as much as possible to align them with the policy which has been set. In accordance with the Supervisor's directive, the Board of Directors approved the Bank's remuneration policy in October 2009.

Remuneration at the Bank consists of current base remuneration (salary and benefits), short-term incentives (bonuses etc.) and long-term incentives based on achievement of long-term objectives (stock option plans).

The remuneration system is intended to reinforce behavior which the Bank seeks to encourage, Bank values and success in achieving objectives set by the Board of Directors. The remuneration policy reflects a proper balance between increasing motivation and striving for achievement, on the one hand, and the enterprise-wide strategy and the risk management policy set by the Bank, on the other hand.

The remuneration policy differentiates between employees, thereby encouraging strong motivation and individual contribution by employees, while incorporating quantitative parameters (profitability) and qualitative ones (service level).

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions, sectors and other units that report to the President, as follows:

Retail Division – This division consolidates most of the banking activity of private clients and small business clients. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; the mortgage sector, responsible for mortgage operations ;and the online banking sector, responsible for the different distribution channels for online banking. Furthermore, Division operations include the private banking segment for select clients, which in 2009 was transitioned to the Financial Division. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (internet, telephone, SMS, fax and video chat).

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business clients. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating 6 geographically-distributed business centers. In addition, a business center for clients in rural areas was established in 2008. The division also includes other units providing specialized services for clients in specific sectors: the construction and real estate sector, the international finance and trade sector and the diamonds business center. The division also operates the special client sector, in charge of collection of problem debt.

Finance Division – The division includes the financial management sector - which is responsible for management of the Bank's financial assets and liabilities - and the capital market trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing back-room services. The Division is also responsible for Group international operations, and since 2009 – also for the private banking segment. This is achieved via the private banking and international operations sector, which is responsible for these operations via the private banking units in Israel and via affiliates and subsidiaries overseas.

Client Assets and Consultancy Division - this division includes the departments which provide pension consulting and financial consulting services offered to clients. The division is also responsible for subsidiaries operating in the capital market: Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd. and Mizrahi-Tefahot Trust Company Ltd.

Information Technology - in charge of information technology, including as stipulated by Proper Banking Conduct Directive no. 357, via Mehish Computer Services Ltd., a wholly-owned subsidiary of the Bank, and is also in charge of the Provident Fund sector.

Comptrollership, Planning & Operations Division - this division includes: control of all different risk elements of the Bank; the Process Engineering division, in charge, *inter alia*, of back-office banking operations and the Planning & Economics Division,, in charge of supervision and control of subsidiaries. This division is also responsible for: Bank insurance (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages, clearinghouse and information security at the Bank, as required under Proper Banking Conduct Regulation 357.

Human Resources and Administration Division – this includes management of human resources, training, logistics, administration and improved efficiency (including properties and construction) as well as security.

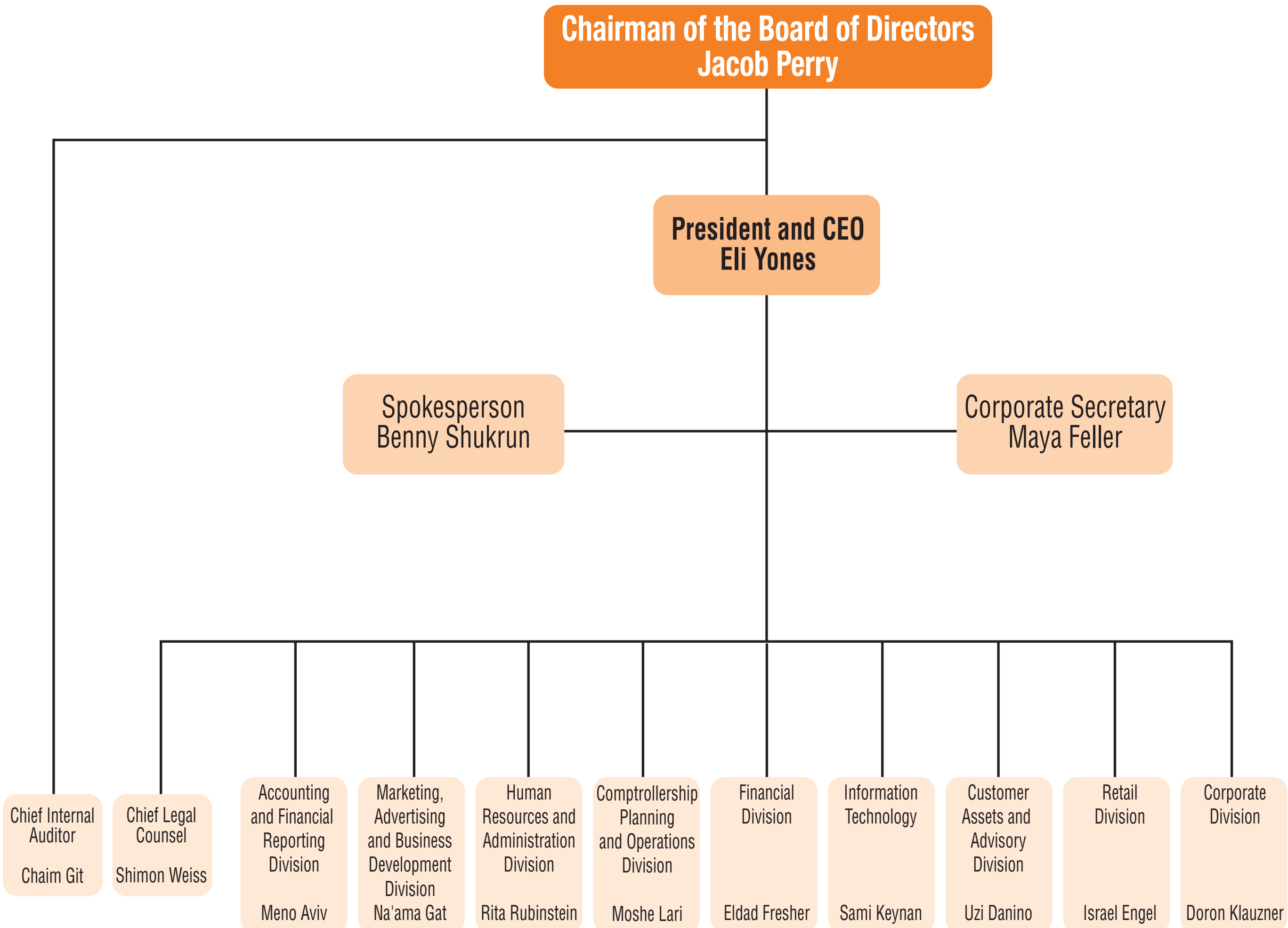
Marketing, Advertising and Business Development Sector – This sector consolidates activities relating to advertising, marketing, and development of financial products and other services which the Bank markets to clients.

Accounting & Financial Reporting Sector - in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, mortgage ledger, accounting and treasury.

Legal Department – the Legal Department is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk (including the compliance officer who was also appointed for the money laundering prohibition) and to handle claims against the Bank.

Internal Audit Department – the department is responsible for conducting internal audits of Bank business and operating units. The department is also responsible for handling the public inquiries and complaints against the Bank.

Organizational Chart of the Bank



Tax Laws Applicable to the Bank Group

The Bank is classified as a "financial institution" under the VAT Act, 1975 and is therefore liable for payment of taxes on salary and profit, as well as for corporate tax as per the Income Tax Ordinance (New Version), 1961. For details of the amendment to the Inflationary Adjustment Act, see below in this chapter.

Corporate tax and profit tax

The overall tax rate for corporate tax and profit tax applicable to Bank revenues in 2009 was 36.48%. This rate is expected to decrease in coming years, as follows:

Year	Total tax (corporate tax and profit tax in %)
2010	35.34%
2011	34.48%
2012	33.62%
2013	32.76%
2014	31.90%
2015	31.03%
2016	29.31%

The payroll tax in the first half of 2009 was 15.5% of payroll expenses paid by the Bank, and in the second half of 2009 - 16.5% of said expenses. The payroll tax is deductible for calculation of corporate tax, starting in 2007. On January 1, 2010, the payroll tax rate was decreased to 16%. This tax rate would apply through 2010, and starting on January 1, 2011, the payroll tax rate would be 15.5% once again.

Tax assessments

The Bank has finalized tax assessments through 2007. The former Bank Adanim has finalized, or deemed final, tax assessments through 2006. Bank Yahav has finalized tax assessments through 2002.

Arrangements and approvals from tax authorities

The Bank has made arrangements and obtained approvals from tax authorities for the following merger transactions executed by the Group:

- In conjunction with the merger of the Mizrahi Bank Investment Company Ltd. into the Bank, the former's assets and liabilities were transferred to the Bank. Accumulated tax losses and accounting losses generated as of the merger date may be offset by the Bank in accordance with a formula set forth in the tax authority approval over a 10 year term, starting in 2004.

- In conjunction with the merger of Bank Adanim, Bank Adanim disclosed to tax authorities the proceeds from sale of its operations to Bank Mizrahi-Tefahot. In a letter dated February 1, 2009, the tax authorities informed the bank that in their reviews through said date they have found no cause to intervene in the bank's disclosure. Note that the merger of Bank Adanim and Bank Mizrahi—Tefahot is not subject to approval by the tax authorities.

See Note 28 to the financial statements for additional information.

The Bank has arrangements with the tax authorities, as follows:

- Overseas Affiliates Arrangement – According to this arrangement, certain wholly-owned subsidiaries of the Bank that operate overseas pay taxes in Israel on their income, based on the financial statements of these companies. Taxes paid overseas may be set off from the tax liability in Israel, and dividend distributions to the Bank are exempt from tax in Israel.
- Arrangement for implementing the recommendations of the Givoli Committee regarding the reversal of provisions for doubtful debts – According to this arrangement, when the Bank reverses provisions for doubtful debts that it had recorded in its books during the five years preceding the reversal, the Bank is taxed as though the provisions had never been made, plus 50% of the interest stipulated in the Income Tax Ordinance, from the date the provision was made until the date of reversal.

Overseas operations

The Bank has branches in Los Angeles, London and the Cayman Islands. Profit or loss of these branches is included in the profit or loss reported by the Bank to the tax authorities in Israel.

The State of Israel has signed treaties for avoidance of double taxation with the U.S. and England. Pursuant to the provisions of the treaty with these countries, taxes paid in these countries for the activities of the branches there may be offset against the Bank's tax liability in Israel. The limit for offsetting foreign taxes in Israel is the amount of the tax liability in Israel deriving from the profits of these branches.

The branch in the Cayman Islands is not subject to tax in its country of incorporation.

The Bank has a subsidiary in Holland operating as a holding company, which owns a Swiss company that operates a bank in Switzerland. These companies are covered by the Overseas Affiliates Arrangement as explained below.

Legislation and Regulation of Bank Group Operations

Holocaust Victim Assets Law (Restitution to Heirs and Dedication to Assistance and Commemoration), 2006

On January 3, 2006, the Holocaust Victim Assets Act (Restitution to Heirs and Dedication to Assistance and Commemoration), 2006 was published. The objective of the Law is to increase activity for identification of assets located in Israel, for which there is a basis to assume their owners perished in the Holocaust. Within the scope of this law, a government company was established, to work toward identification of such assets, which will become its property and will be transferred to those holding rights in them, if located. In accordance with the Law's provisions, any person holding or managing the asset of a Holocaust victim must file a report with the government company within 30 days of the date the company publishes a relevant announcement , or from the date he became aware that the asset is in his possession.
For details on the company's appeal to the Bank, see under Legal Proceedings chapter.

Arrangements in the State Economy (Amended Legislation to Achieve Budgetary Targets and Economic Policies in Fiscal Year 2008), 2008

The Arrangements Act, published on January 1, 2008, includes, *inter alia*, an amendment to the Financial Services Supervision Law (Engagement in Pension Consulting and Marketing), 2005 ("the Supervision Law"). The Supervision Law, enacted on July 25, 2005, stipulates, *inter alia*, that only properly licensed individuals may engage in pension consulting. The statute further stipulates the conditions and restrictions for obtaining a pension consultant license, as well as the list of pension products on which the consultant may advise. The amendment stipulates that banking corporations whose shareholders' equity does not exceed NIS 10 billion, would be permitted, starting January 1, 2009, and subject to obtaining an appropriate license from the Supervisor of Capital Market, Insurance and Savings in the Ministry of Finance, to consult, in conjunction with pension consulting services they provide, also on pension products with an insurance component, including: Pension insurance, life insurance with a savings component and disability insurance – provided it is part of a pension insurance or life insurance policy. Banking corporations whose shareholders' equity is higher than NIS 10 billion would be allowed to provide pension consulting, including on insurance-related pension products, at later dates.
The Bank acts in the field of pension consultancy in accordance with a license from the Supervisor of Capital Market, Insurance and Savings. Providing insurance consulting, as stated above, would allow for expansion of the Bank's pension consulting operations in exchange for distribution commissions from insurance companies, similar to current arrangements for the other pension products.

The Court Order Execution Law (Amendment no. 29), 2008

The law, passed on November 4, 2008, includes amendments to the Court Order Execution Law, 1967 aimed at improving efficiency of collection proceedings using the Court Order Execution Service, while setting restrictions on liquidation of certain assets so as not to over duly encumber debtors, especially those without the means to pay their debt as ordered.

The amendment extends the authorities of the Court Order Execution Service Registrar to demand and obtain, under certain conditions, information with regard to assets, revenues, expenditures, travel into and out of Israel of debtors, even without a waiver of confidentiality. The Registrar was authorized to impose various restrictions on debtors. The amendment creates a collection fast track for a 2-year period for collection of debts up to NIS 10,000 – which may be used at the discretion of the party being awarded the judgment. This track would be operated by the Court Order Execution Service with minimum involvement of the awarded party, and without requiring processing by an attorney.

Along with the aforementioned directives, conditions were set for imposing a prison sentence which would limit the option of imprisonment of debtors. The law stipulates inter alia, that the debtor shall appear in person before the Court Order Execution Service Registrar, and that the Registrar must be convinced that the debtor is capable of debts repayment and has no reasonable explanation for its non-repayment, the debts must be over NIS 2,000 and the Registrar must be convinced that there is no other means of lesser impact to the debtor which would lead to collection of the debts. The law further includes a temporary regulation for a 2-year term, starting 2 years after the law becomes effective, which completely eliminates the use of imprisonment.

The amendment also forbids to foreclose under certain conditions, the expected proceeds from the sale of which are small and do not justify the severe impact to the debtor and his family due to their foreclosure, such as: It was further stipulated that the Registrar may not order the sale of real estate used, in whole or in part, as a residential apartment of the debtor, nor evacuation of the debtor and their family members who occupy the real estate with them, unless that parties have been summoned to appear before the Registrar, and the Registrar was satisfied that the debtor and its family members would have a reasonable place of dwelling, or that they have the financial wherewithal to finance a reasonable place of dwelling, or that an alternative arrangement has been provided for them. The Registrar is also required to inform the debtor as to the options available to them for obtaining legal counsel.

Provisions of this amendment also apply to mortgages and liens. The law eliminates the option for conditions to be set in order to protect alternative housing while allowing the mortgage agreement to include terms (including in the pledge agreement) that a restricted protection shall be in force for a period of up to 18 months, with the Registrar being authorized to exceed this period under special circumstances. The provision shall apply to mortgage agreements signed after the law becomes effective, but if it be proven to the Registrar that the debtor was not clearly informed that he had waived the right to alternative housing in the mortgage agreement, the implications of such waiver on his rights – the agreement shall be deemed not to have stipulated that the debtor shall not be protected by the section in the law prior to the amendment.

The amendment to the law becomes effective on May 6, 2009.

Bank management estimates that the amendment to the law may cause the Bank to incur additional expenses in cases where residential apartments must be liquidated in order to collect on borrower debts. However, at this stage it is not possible to estimate the impact of the amendment to the law on the Bank's business results.

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 made to it, 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.

Amendment to Securities Regulations (Periodic and Immediate Reports), 1970 – Immediate report with regard to transactions with controlling shareholders

On August 6, 2008, the amendment to Securities Regulations (Periodic and Immediate Reports), 1970 became effective ("the Amendment"), whereby, inter alia, a reporting corporation is required to issue an immediate report with regard to "details of a transaction with a controlling shareholder, or which the controlling shareholder has a personal interest in its confirmation, including highlights of the transaction or contract, details of the organ which confirmed the transaction and its summary reasons for the confirmation; in this paragraph, "transaction" excludes a transaction which the most recent financial statements classify transactions of its type as immaterial."

Subsequent to publication of the Amendment, the Securities Authority informed the Bank Association in a letter dated August 6, 2008 that it would not intervene in cases where disclosure is not made in the immediate report with regard to banking transactions which do not constitute an extraordinary transaction as defined in Section 1 of the Corporate Act, provided that all of the following are met:

- The corporation's Audit Committee would set criteria for an extraordinary transaction and for an immaterial transaction;
- Such financial statements would provide a general description of the transactions, their attributes and criteria determined for classifying the transactions as immaterial or as non-extraordinary, including details of facts, reasons and explanations for such determinations;
- The description of contracting with the controlling shareholder with regard to terms of employment and service, would provide a general description of financing transactions contracted between them and the bank (if any), along with their attributes.

Pursuant to the above and to that end, on February 15, 2010 the Bank Board of Directors' Audit Committee determined the criteria for an extraordinary transaction and for an immaterial transaction. For details, see under Description of Transactions with Controlling Shareholders, below.

Other regulations

In addition, banking corporations are required to file immediate reports with the Supervisor of the Banks (inter alia, with regard to embezzlement, fraud and acquisition of means of control), as well as monthly reports (inter alia, reporting of financial data, of the banking corporation's board of directors, senior staff and accountant, ratio of capital to elements of risk, etc.).

Further information concerning other legislation, including directives by the Supervisor of the Banks, which primarily impact operations of a specific operating segment, are included under the Legislation section for the specific operating segment, under the chapter "Description of Bank Group Business by Operating Segment”.

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

The Basel 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. On June 26, 2004, the Basel Committee published new recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries ("Basel II"). A final, updated version of these regulations was published in June 2006. Basel II recommendations supersede the previous regulation dated 1988, known as Basel 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 Basel 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 Basel Committee

Whereas the Basel I regulation was mainly aimed at capital allocation for credit risk and market risk to which the financial institution is involved, Basel II expanded these regulations to afford better stability to financial institutions, by also implementing a culture concerning risk management and control. Therefore, Basel 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 prescribed below.

The first layer of Basel II includes minimum capital allocation due to market risk and credit risk, as well as due to operating risk (capital allocation not required by Basel 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 Basel I, but relying on external debts rating by rating agencies recognized by the regulatory authority (in Israel: the Supervisor of the 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 a 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.

Basel 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. Basel II principles further stipulate the responsibility of the internal auditor as an additional layer in handling operating risk.

The second layer of Basel 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 Basel 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 Basel II, and the Bank applies these requirements in these financial statements.

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

Application of the Basel Committee recommendations by the Israeli banking system

In early July 2007, the Bank of Israel published a translated draft of the Basel II Committee recommendations. Furthermore, the Bank of Israel established teams to formulate requirements vis-à-vis banking corporations. Work of these teams was accompanied by publication of a range of guiding documents which specify, in detail, the desired manner of implementation of the Basel Committee recommendations by Israeli banking corporations. The Bank of Israel instructed the banking groups to act to apply the Basel Committee recommendations, including layers 2 and 3, subject to a comprehensive multi-annual work plan which would refer to all aspects impacted by application of the recommendations, based on results of meticulous and detailed results of gap analysis reviews.

In December 2008, the Supervisor of the Banks issued the final 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 ration in accordance with Basel II guidelines to the Supervisor of the 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 June 30, 2009.

In accordance with Bank of Israel directives dated August 2009, capital targets would be set for banking corporations in Basel 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 Basel I terms.

Bank preparation for applying the recommendations

The Bank began preparing for application of the Basel II recommendations in 2006, established a steering committee headed by a Bank executive, established the required teams and started mapping gaps and technology required for application of this directive. The project was conducted at Group level, based on a detailed work plan which includes all directive components.
The work plan also includes a dedicated chapter on operating risk management, as per Basel II requirements, and as is customary for leading banks around the world.

As of December 31, 2009, Mizrahi-Tefahot Group, including Adanim and Yahav, has concluded implementation of Pillar 1 of the directive, using the Algorithmics system. The system was selected to be the Bank’s integrative risk management system for management of market risk, assets and liabilities, Pillar 1 calculations for credit risk, liquidity management and capital calculations in accordance with Basel II.

Pillar 1 results are presented in Note 14 to the financial statements, as well as in the Risk Management chapter below.

In 2008, the Bank launched the ICAAP process (in conjunction with Pillar 2 of the Basel 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. ICAAP is a comprehensive process in which senior Bank executives are involved. Thus management is exposed to this issue at all levels, as well as to the issue of risk and control there of. In addition, workshops were held for Bank Board members with regard to risk management and to the ICAAP process in particular.

In late June 2009, the Bank filed with the Bank of Israel its draft ICAAP document, which reflects the Bank'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.

The ICAAP process is a continuous one. In the third quarter, the Bank's ICAAP document was twice reviewed by senior international consultants. In the fourth quarter of this year, the Bank launched an independent review of the process, which would continue in 2010, while eliminating current gaps vs. requirements of the Basel Committee for the various risk types, and continuing to deliver workshops to the Bank's Board of Directors.

The Bank is also acting to upgrade 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.

For further information on Bank preparations for application of Basel II regulations, see the Risk Management chapter.

Proposed legislation

From time to time, proposals for legislative amendments are brought before the Knesset on various matters, some of which could have an impact on the businesses of banking corporations, including the Bank. As of the date of the financial statements, there are several bills in various stages of legislation, including bills regarding interest on credit balances in current accounts and regarding commissions collected by the banks. These bills were intended to increase the supervision and arrangement of bank-client relations, especially clientss from the household segment, principally limiting the ability to increase commissions, limiting the total commissions income, prohibition on collecting commissions on certain services, etc. However, as of the date of the financial statements, these bills are in different stages of legislation, they may be modified and there is no certainty as to when they will be completed or if they will eventually become provisions of binding legislation.

Significant Agreements

A. Deed of trust dated November 16, 2006 in connection with the complex capital notes that were issued. Pursuant to the deed of trust, the Bank may, without requiring consent of the trustee and/or capital note holders, issue additional capital notes in the same series up to NIS 2 billion par value, subject to Bank of Israel approval. The Bank may also issue other series of subordinated notes and/or debentures and/or subordinated capital notes and/or other obligatory notes to be ranked higher or lower or equal to the subordinated capital notes. For details, see chapter on Sources and Financing.

B. Employment agreements signed with the Employee Council, the Manager and Authorized Signatory Association, the Yahav Employee Committee and the Mehish Employee Committee. For details, see the Human Resources chapter.

C. Letters of indemnification. See Note 19.D.5) through 19.D.10) to the financial statements for details.

D. Agreement with Israel Credit Cards Ltd. (hereinafter: "CAL"), Diners Club Israel Ltd. – a company controlled by CAL - with regard to joint issuance of Visa, MasterCard and Diners Club charge cards, including cards branded with the Bank brand, to be distributed by the Bank to its clients. The agreement, in addition to operational arrangements, also grants the Bank an option to acquire from CAL, by way of allotment, CAL ordinary shares - all subject to terms and conditions set forth in the agreement. See Note 19.D.15) to the financial statements for further information.

Legal Proceedings

See Notes 19.D.11) and 19.D.12) to the financial statements for material legal proceedings to which the Bank is party.

Parliamentary investigative Committee on the Location and Restitution of Assets of Holocaust Victims ("the Investigative Committee")

In April 2001, a document of principles was signed between the Bank and other banks and between the Investigative Committee regarding an arrangement for an independent investigation of the accounts of Holocaust victims in banks in Israel. In its wake, independent investigators were appointed to assist the Parliamentary Investigative Committee in locating the bank accounts of Holocaust victims.

In January 2005, a report was published by the Investigative Committee summarizing the investigation of banks in Israel of the assets of Holocaust victims (“the Committee’s Report”). According to the Committee’s Report, the Bank’s alleged obligations range between NIS 1.8 million and NIS 12.9 million at various interest and linkage terms.

The Bank disputes the findings in the Committee’s Report, and, in its opinion, based on documents it received from the Investigative Committee that served as the basis for the report, and supported by a legal opinion based on these documents, it has significant defense arguments, both factual and legal, in its defense against the findings of the Investigative Committee and its conclusions. Bank management, based on the opinion of legal counsel, believes that Bank exposure due to findings and recommendations of the Committee is not material.

On May 3, 2007, the Corporation for Location and Restitution of Holocaust Victim Assets Ltd., established pursuant to the law (hereinafter in this sub-section: “the company”) contacted the Bank, demanding that the Bank conduct a review for assets belonging to Holocaust victims (including assets which the Bank disputes the fact that they belong to Holocaust victims. After conducting the review, the Bank was required to transfer such funds, plus interest and linkage differences, to the company. On May 8, 2007, the Bank responded to the company, reiterating its position that it holds no assets of Holocaust victims, as reflected in the investigative committee’s report.

On June 4, 2007, the Bank agreed for the Knesset to submit to the Corporation for Location and Restitution of Holocaust Victim Assets Ltd. all information and findings available to it with regard to assets of Holocaust victims which were collected during work of the investigative committee, and the Bank consented to cooperate with the company in this matter. Following said date, additional letters were exchanged by the company and/or its representatives and the Bank and/or its representatives, following which the Bank provided further documents to the company.

On July 15, 2008, the company wrote to the Bank, demanding payment of NIS 18 million. On August 14, 2008 the Bank rejected this claim. On March 2, 2009, the Bank received an amended demand from the company, whereby the latter rejects the Bank's position and modifies the amount to NIS 19 million as of December 31, 2008. On April 2, 2009 the Bank rejected this claim. On April 2, 2009, the company reiterated its position, stating that if need be, it would take the matter to the qualified Court of Law. On May 19, 2009, the Bank once again rejected the company's claims, and demanded that it would immediately retract its demands from the Bank. Despite the aforementioned exchange of letters, the Bank and the company decided to discuss their disagreements in order to try and resolve their difference of opinion. This discussion has been on-going by legal counsel of both parties since August 2009, with each party reserving its rights.

Also see the highlights of the Holocaust Victim Assets Law (Restitution to Heirs and Dedication to Assistance and Commemoration), 2006, in the chapter on Legislation and Regulation of Bank Group Operations above.

Arrest and plea bargain of bank employee in the USA

On December 19, 2007, a Bank employee, since then retired, was arrested in the USA on claims that he assisted a Yeshiva, resident in the USA, to defraud the US tax and securities authorities; this employee and others were indicted before the Los Angeles Court of Law.

The Bank's Los Angeles branch was subpoenaed to produce documents. Since this is a criminal investigation still under way by US law enforcement agencies ("law enforcement agencies”), the subpoena includes prohibition of disclosing information to others; however the Bank informed the law enforcement agencies that proper disclosure of this matter would be made in its financial statements.

Further note that the law enforcement agencies reported that the Bank is a target of this investigation, but the agencies are still considering their position with regard to the Bank. Based on a review conducted by the Bank, it has not committed any offense in Israel nor in the USA, and if any offenses have been committed by the Bank employee as the indictment alleges, he did so in violation of Bank procedures and his obligations to the Bank.

On June 27, 2008, in conjunction with a plea bargain, the Bank employee (who has since retired) admitted to assisting only one Bank client to avoid tax payments. All other charges against the Bank employee, including money laundering offenses, will be erased. In the plea agreement, the Bank employee does not implicate the Bank or any of its employees in his actions. The plea agreement was filed with the Los Angeles Court. In early March 2009, the (former) Bank employee was sentenced to a prison term concurrent with the actual period since his arrest, and was released.

The Bank has expressed its consent to cooperate with law enforcement agencies, subject to legal provisions and to the US-Israel Treaty. The law enforcement agencies consented to the Bank responding to the subpoena by a document discovery process to last several months. The Bank has provided the aforementioned documents, and continues to provide documents as requested by law enforcement authorities in the USA.

The Bank has informed the Supervisor of the Banks of the aforementioned events and developments.

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.

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.

The Bank intends to appeal this decision. See Note 19.D.13) to the financial statements for further information.

Demand by shareholder with regard to filing a derivative claim

On May 13, 2009, a claim letter was received from a shareholder of the Bank pursuant to Section 194 of the Companies Law, 1999 in which the shareholder demands that the Bank announce within 45 days that it has filed a claim against officers, Board members and controlling shareholders of the Bank since the 1990s, requiring them to pay damages and/or to reimburse the Bank should a court of law find (or a settlement be agreed to) in one of the class action suits pending against the Bank on this matter, that the Bank should compensate its clients and/or reimburse them for unlawful charging of commissions. This claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009.

On July 1, 2009 the Bank rejected this claim. The Bank's position, after consulting with external legal counsel, that even after the Anti-Trust Supervisor's determination has been made public, the Bank has no cause for filing a claim against its officers, Board members and controlling shareholders. At this point in time, the alleged damage has yet to be realized, and may not be realized at all, and the extent of such damage is certainly unknown at present, even should it be awarded. The class action suits are at a very preliminary stage - that of filing the motion for recognition - and it is unclear if they would be recognized as class action suits, and even should they be thus recognized, if the Bank would be found liable. Furthermore, filing a claim is not in line with the Bank's interest and is directly opposed to the Bank's position whereby the published determination is erroneous, and the Bank's actions do not constitute a restrictive practice, and even had they constituted a restrictive practice, no damage has been sustained by class plaintiffs.

Events outside the Normal Course of Bank Group Business

Merger of Bank Adanim

On November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. – a wholly owned and controlled subsidiary of the Bank – to approve the merger of Bank Adanim with and into the Bank. On February 23, 2009, the merger was recorded by the Registrar of Companies. For further details, see Note 6.E.1) to the financial statements.

Stock option plan for VPs who are part of Bank management and share buy-back

On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of options by private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.). On June 29, 2009, the Bank allotted 5.85 million options. The options would be divided into five equal lots, each of which would vest, starting on the first anniversary of the grant date and at each anniversary there after, contingent on achieving an annual objective of return on equity of 10% or higher in the year preceding the date on which the lot is to vest.

The theoretical benefit value of the options allotted at this stage, calculated in accordance with accounting rules of Accounting Standard no. 24 (excluding options expired due to retirement of two VPs), amounts to NIS 24 million (NIS 28 million including Payroll Tax).

On November 9, 2009, the Bank's Board of Directors, after obtaining approval by the Bank's Audit Committee, resolved to approve allotment of a further 1,104,999 options, under identical terms and conditions with the exception of the exercise price, to two VPs appointed subsequent to the approval date of the stock option plan for VPs. The theoretical benefit value of the additional options, calculated in accordance with accounting rules of Accounting Standard no. 24, as of the date of approval, amounts to NIS 10 million (including payroll tax).

This stock option plan is a major component whereby offerees would be granted long-term compensation intended, *inter alia*, to provide incentive to members of Bank management to continue serving the Bank over the long term, assigning the appropriate weight to the Bank's long-term objectives and to long-term considerations in management of the Bank and its operations, as well as to strategic thinking required for future growth. This long-term approach is also in line with the Bank's risk management system. This is concurrent to exclusion of members of Bank management, as per their own decision, from the bonus plan for each of the years from 2009 through 2012, which is a shorter term plan, and to their consent to be excluded from the bonus plan for 2013, if approved by the Bank.

The stock option plan strengthens the link between the benefit to the offeree under the plan and the Bank's business results over time, thereby reinforcing the incentive to offerees with regard to achieving the Bank's general objectives and overall profitability over time. This is achieved by the fact that eligibility for the benefit inherent in the stock options arises over time, and the value of said benefit is also derived over time, arising directly from laying of an appropriate foundation and reaping the fruits there of over the years.

Allotment of the options was contingent on the Supervisor of the Banks allowing the Bank to buy back at least 1,400,000 shares of NIS 0.1 par value in the Bank's issued share capital.

On May 27, 2009, the Bank received the Supervisor's approval, allowing the Bank to buy back on a non-recurring basis 2,500,000 shares of NIS 0.1 par value of the Bank's issued share capital, subject to statute and to terms and conditions set forth in the Supervisor's approval. On July 20, 2009 the Bank's Board of Directors approved a share buy-back plan by the Bank, to acquire up to 2,500,000 shares of NIS 0.1 par value each, subject to terms and conditions set forth in the Supervisor's approval. On September 24, 2009, the Bank completed the buy-back, purchasing in total 2,500,000 shares at a cost of NIS 76 million.

In accordance with the condition stipulated in the Supervisor's approval, the Bank would sell all excess shares (if any) immediately after the end of the exercise period of all options allotted pursuant to the stock option plan, i.e. immediately after the seventh anniversary of the date of allotment of options in accordance with the stock option plan. In accordance with a pre-ruling obtained from the Tax Authority, the Bank would not incur any tax liability upon purchase of shares as stated above. The Bank's Board of Directors has concluded that buy-back of Bank shares in accordance with the aforementioned buy-back program meets the distribution criteria stipulated by the Companies Law and is compliant with terms and conditions set forth in Proper Conduct of Bank Businesses Regulation No. 331. The Board of Directors has re-examined Bank compliance with distribution tests stipulated by the Companies Law, as well as compliance with conditions set forth in Regulation 331, immediately prior to these acquisitions.

The Board of Directors indicated, in the reasons provided for the foregoing, that a share buy-back, in accordance with the Supervisor's approval, would reduce the dilution rate of Bank shareholders due to exercise of options pursuant to the stock option plan. For details, see Note 13.D. to the financial statements.

Updates to employee stock option plan

On March 2, 2009, the Bank Board of Directors, after receiving approval of the Bank Audit Committee dated March 2, 2009, decided to extend by two years the exercise period of all options allotted to members of management, division and sector managers, department and branch managers of the Bank and its subsidiaries, pursuant to the plan dated July 19, 2005. See Note 16.A to the financial statements for details.

On June 29, 2009, the Bank Board of Directors approved allotment of a further 2,679,300 options, under identical terms and conditions except for the exercise price, to two officers and 37 additional employees. The theoretical benefit value of the additional options, calculated in accordance with accounting rules of Accounting Standard no. 24, as of the date of approval, amounted to NIS 11 million (NIS 12 million including payroll tax). See Note 16.A to the financial statements for details.

On November 9, 2009, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 1,085,432 options, under identical terms and conditions with the exception of the exercise price, to four officers of the Bank. The theoretical benefit value of the additional options, calculated in accordance with accounting rules of Accounting Standard no. 24, as of the date of approval, amounted to NIS 6 million (NIS 7 million including payroll tax). See Note 16.A to the financial statements for details.

Board of Directors' decision with regard to Bank's capital adequacy ratio

On June 29, 2009 the Bank's Board of Directors resolved to instruct the Bank's 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.

This decision was subsequent to previous decisions by the Board of Directors with regard to capital adequacy:

Decision dated February 25, 2008, instructing Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12% by end of 2009.

Decision dated April 2006, stipulating that the capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%.

In a letter dated August 30, 2009, the Bank of Israel instructed banks that, pending completion of the supervisory review and assessment process by the Bank of Israel of implementation of Pillar 2 of the interim directives concerning Basel II implementation (SREP - Supervisory Review and Evaluation Process), the bank is required to continue maintaining the capital targets as defined in terms of Basel I (Proper Conduct of Banking Business Regulation No. 311).

Publication of shelf prospectus - on February 25, 2009, Mizrahi-Tefahot Issuance Company Ltd., a wholly-owned subsidiary of the Bank, published a shelf prospectus for issuance of series of different obligatory notes under different terms and conditions. The obligatory notes in each series separately would be offered by way of public offering via shelf prospectus reports, which would contain all details specific for that offering, as required by statue, regulations and directives of the stock exchange in effect at that time. For details, see chapter on Sources and Financing.

Special collective bargaining agreement with employee union

On September 16, 2009, a special collective bargaining agreement was signed with the employee union, whereby the special collective bargaining agreement signed in 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank's Board of Directors on October 19, 2009. In this agreement, the parties resolved, *inter alia*, to maintain absolute calm in labor relations for the term of the agreement; to put in place a voluntary retirement program for up to 200 employees during the term of the agreement; and to allow management to terminate up to 50 permanent employees during the term of the agreement for reason of incompatibility. See Note 16 to the financial statements for details.

Completion of deployment of the Code of Ethics throughout the Bank

In 2009, the Bank completed the deployment of the Code of Ethics to all managers and employees. The Code of Ethics was published on the Bank's website. The Ethics Committee continues to improve awareness and to preserve the organizational conversation about the Code of Ethics at the Bank.

Business Strategy

On December 24, 2007 the Bank's Board of Directors approved a new strategic plan for 2008-2012, based on the following principles:

- The objective is to achieve in 2012 return on equity from current operations of 18% on average.
- During the strategic plan, the Bank would maintain a capital adequacy ratio (including complex capital notes) at no less than 11.2% and a capital adequacy ratio (excluding complex capital notes) at no less than 10%, as per the previous Board of Directors' decision dated May 2007. This is in view of the custom among banks globally to maintain capital adequacy rates higher than the minimum requirements imposed by regulators, in order to reflect to investors and depositors the conservative approach and international standards which the Bank wishes to adopt, as well as in view of the intent of the Supervisor of the Banks to adopt Basel II regulations and to have capital allocated for operating risk as well. On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including subordinated notes) be no less than 12% by end of 2009.
- During this strategic plan, the dividend distribution policy adopted by the Bank would be maintained, whereby, subject to the Bank’s ratio of capita to risk components being no less than 10% ,the Bank would distribute annually dividends equal to 40% of net operating income and 80% of net income from extraordinary items.

Due to the global financial crisis and its implications on world economies, including Israel's, which involved a slow-down in economic activity, the Bank's Board of Directors resolved on November 24, 2008 to update the strategic plan and to extend it by an additional year; thereby the objective of achieving return on equity from current operations of 18% on average is targeted for 2013, rather than for 2012 as per the original plan. In accordance with this decision, other than extending the strategic plan over one additional year due to macro-economic changes, no other changes will be made to the Bank's growth and expansion plans in coming years.

The Board of Directors resolved to once again review the update to the strategic plan in view of economic developments in Israel and overseas, and to update the strategic plan if required.

For details of the business strategy for each individual operating segment, see above the chapter "Description of Bank Group Business by Operating Segment”.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's Board of Directors, as described below. This information may not materialize due to changes which may occur in various factors outside of the Bank’s control. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Forecasts and Assessments with Regard to Bank Group Business

The Bank bases its future growth plan on several major efforts in the following areas:

- Continued growth of Bank market share of the household segment;
- Maintaining the Bank's position as a leader in the mortgage market;
- Upgrading trading and execution infrastructure (trading rooms) and continued leadership position in this area;
- Expansion of international operations, with emphasis on private banking and trading infrastructure;
- Expansion of the business client base and establishing unique value propositions, mainly for small-to-medium businesses.

The growth engines are aimed to grow Bank revenues at an average annual rate of over 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 4% (also not in linear fashion). Note that these rates include the cost associated with acquisition of a controlling stake in Bank Yahav and the initial investment required for realizing the potential in combination of Yahav with the Bank Group.

The Bank has based the new strategic, multi-annual plan, *inter alia*, on implementation of acquisition of the controlling stake in Bank Yahav; on potential benefits to the Bank from implementation of Basel II recommendations; pension consultancy and insurance; continued organic growth; expense containment and continued improvement in efficiency with introduction of ever growing variable, performance-based compensation; and continued expansion of the back-office operation division while transferring logistics operations from branches to this division – a process launched by the Bank in early 2007. Furthermore, realization of the benefits of the Adanim merger allows for exposure of all banking services offered by the Group to Adanim clients, along with operating cost savings.

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Anticipated developments

Recruiting clients and expanding household activity

The Bank is conducting multiple efforts in order to recruit new household clients, along with expanding activity of current clients. One of the key tools used to recruit clients is the public campaign conducted by the Bank, both in the media and via branches, to encourage clients to switch banks and in particular to switch to Bank Mizrahi-Tefahot - the "Help DVIR switch" campaign. See the chapter on Marketing Operations below for additional information. Another tool used as a value proposition, both for recruiting new clients and for expanding activity of current clients, is the branded card - "The Card" - and the cardholder club launched in 2009.

Integration of Bank Yahav into the Bank Group

Subsequent to acquisition of 50% of Yahav's share capital, the Bank continues to integrate Yahav into Group operations. Realization of Yahav's synergetic potential as part of the Mizrahi-Tefahot Group is one of the growth engines included in the Bank's business plan. For further details see above the chapter on major investees.

Adanim merger

The Bank intends to realize the potential of the Adanim merger, such that all banking services would be offered to Adanim clients via the Bank's branches. To this end, benefits are offered to Adanim clients who use additional banking services, other than mortgages, at the Bank. For further details, see description of the household segment above.

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Marketing Operations

The Bank's marketing activities and its marketing strategy are derived from the Bank's strategic plan. The Bank's marketing channels, which form the basis of the strategic plan, include branches throughout Israel, business centers, professional departments at Bank headquarters as well as direct banking channels.

Marketing strategy

The marketing strategy derives from growth and profitability targets that were prescribed within the scope of the Bank's business plan, which is based on achieving the goals provided below:

- Increase the Bank's retail market share by expansion of its client base - especially households - while focusing on profitable target audiences.
- Expansion of client activities with the Bank, along with increase in average revenue per client, focusing on mortgage clients, household clients, clients with significant financial means and clients with potential future profitability, such as military staff and students. The increase in average revenue per client would be achieved, *inter alia*, by better aligning financial products with client needs, increasing the number of products per client, enhancing use of existing products and by using advanced marketing tools to prevent a decrease in volume of activity.
- Maintain Group market share in mortgages, and maintain the Group's positioning as leader in this area. This includes maximizing the potential synergy and economies of scale arising from merger of Bank Adanim's mortgage operations into the Group.

In order to achieve these objectives of the marketing plan, the Bank operates based on the following principles and means:

- Intensify client awareness and communicate the existing benefit in the combination of retail banking and mortgage banking to clients, employees and the general public. This combination enables the Bank to offer clients a broader range of solutions under one roof, and to provide better service to clients.
- Total financial viewpoint, placing the client and his current account in the center, with the Bank offering other value propositions, which provide real added value to the client in various areas, including: Investment management, retail credit products, credit cards, mortgage and pension advisory service.
- Offer innovative products and services based on clientneeds, by applying professional analysis of needs and price-performance considerations with regard to the client.

This policy is reflected in the extensive marketing campaign launched by the Bank in late 2009, entitled "Help DVIR switch". The DVIR campaign is an innovative, trail blazing recruiting campaign, by which the Bank strives to increase the number of clients who switch banks in general, and in particular - switch to Bank Mizrahi-Tefahot.

This campaign is based on two key rationales:

- There is a significant gap between client satisfaction in the banking system, and its reflection in churn rates between banks. The average satisfaction level of bank clients is relatively low, but churn rates between banks are not accordingly high.
- There is a gap between the image of Bank Mizrahi-Tefahot and its market share. Market research conducted by the Bank indicates that the Bank currently enjoys an image advantage over the competition, in terms of public perception - and is perceived by the public at large as a higher quality bank for its clients. Nevertheless, the low churn rate in the banking system has hindered closing of the gap between the Bank's position and the number of Bank clients.

The Mizrahi-Tefahot brand has been build over time with a bottom-up strategy, by communicating the Bank's unique products and services, while making sure that each product would support the Bank's guiding cornerstones - a professional, innovative, people-focused bank. The objective of all of the Bank's significant marketing campaigns in recent years (Forget about overdraft, Executive account, LIVE, Experts campaign, Investment center, The Card by Mizrahi-Tefahot etc.) was to contribute to differentiation of the Bank. The DVIR campaign, in effect, summarizes the values of the Mizrahi-Tefahot brand, relies on them and presents the Bank's unique brand statement so as to create public attention to the selected message.

Since the campaign was launched, the average number of new clients joining the Bank has increased by 100% over the average immediately prior to the campaign. The mix of new clients recruited by the DVIR campaign is in line with the Bank's strategic target audience.

Marketing products and tools

- The Bank considers the creation of unique value propositions to be a key tool in responding to needs of its current clients, and a most important means of recruiting new clients. The Bank's branded credit card launched recently, The Card, is intended to answer this need, and allows club members to benefit from unique value propositions, in both consumer content and attractive financial propositions.
- The Bank attaches great importance to preserving and recruiting clients with high financial net worth and investment management as a whole, and has invested significant effort to this end in improving its website for investors, as well as launching series of unique savings products intended to provide an appropriate solution for clients' long-term savings needs.
- To strengthen and set apart the Group's brand (Mizrahi-Tefahot), and to build an outstanding competitive position that stands apart, and is intended to give the Bank a leading position in the existing and future competitive environment. The brand-related activities include the use of mass communication, intended to create an image effect, to raise the public's awareness of the merged bank and to solidify the new position of the Bank and its values.
- Establish marketing strategy for major Group brands, such as "Mizrahi-Tefahot" and "Tefahot", Live and Executive Account, in accordance with the client profile.

- Development of appropriate infrastructure, in order to enable the required marketing activity, centered on approaching each client with the suitable value proposition, at the right time, using the right channel and message for the client, development of the infrastructures will be carried out mainly through the development of educational tools, management and control tools, development of technological systems, expansion and improvement of online banking.
- Expand service availability for clients, by opening new branches, by adapting and adding activity areas to existing clients. The Bank also expands its direct distribution channels, aimed at enabling the client to choose the contact time and channel convenient for the client, combining a physical branch location and direct channels. The LIVE branches combine all these principles under one roof, allowing Bank clients to bank whenever and wherever is convenient for them.

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Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to clients of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day client activities and offer to clients and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service.

Group branches are deployed throughout Israel. The merger of Bank Mizrahi and Bank Tefahot in early 2005, the merger of Bank Adanim in 2009 and acquisition of Bank Yahav created a combined nation-wide branch network which includes, as of the date of these financial statements, 158 business centers, branches and affiliates, including 35 Yahav branches.

In December 2008, the Bank launched a new, unique service – the LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between client and bankers (via telephone, fax, internet, email, SMS, video conferencing). In 2009, another branch was opened providing this service, based on criteria specified for number of clientper Live branch. Currently there are three Live branches in operation.

In 2009, efforts continued to make optimal use of the merged branch network, adapting the branches, their nature and location to the Bank's business plan, based on a comprehensive review of branch deployment conducted by the Bank - following which it set forth a nation-wide framework for launching new points of sale, relocation, merging and closing branches. This plan is updated in accordance with market conditions and needs in the different regions. In 2010, the Bank plans to open 7 new commercial locations, as well as 14 mortgage sales locations, including establishing mortgage sales locations as Bank representation in Bank Yahav branches.

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Direct banking

In 2009, there was continued transition of some clientbanking activities to direct banking channels (telephone, Internet and cell phones). The enlistment and usage rates of the direct banking systems continue to grow. The banking system as a whole has gradually adopted a multi-channel strategy, at the center of which stands the branch, and direct banking services constitute an integral part thereof.
The service provided through the Internet, as well as the Call Center, constitute the leading channels in the process of improving and strengthening client access to the Bank's services and to improved service in general, while diverting activity from the branch. Additionally, these services enable the Bank's employees to specialize in service and sales.

The Bank's operating policies in the direct banking sector are:

- To expand and upgrade the services provided through the main direct channels (telephone, Internet, cellular phones).
- To expand clients' usage of the direct banking systems, in order to improve service.
- To develop the call center ("Mizrahi Direct") as the major channel for diverting day-to-day activities in the branches.
- To use the direct banking system as a tool for building an advantage for the Bank and for attracting new preferred clients.

The direct banking services offered to the Bank's clients are:

- **Telephone service** - the Bank's call center. This may be used to transact most banking business. Mizrahi Direct makes it possible for its subscribers to also receive telephone services by voice mail, either by computer or a banker at the center;
- **Tefahot Direct** - a center which allows clients to transact a range of mortgage-related transactions. These include: application for a housing loan, obtaining information on existing loans and making payments.
- **Online service** – receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.

- **Cellular Mizrahi –** a system to distribute banking and financial information through cellular telephones, e-mail, fax and the Internet;
- **Mizrahi PC –** a system parallel to "Mizrahi on the Internet", enabling direct connection to the Bank's computer, not through the Internet, and consequently – faster execution of transactions;
- **E-mail services** – a system to distribute details on transactions executed in an account through e-mail, direct to the client's e-mail address;
- **Notification Box service** – a system for receiving Bank notifications of account activity in a personal notification box via the Bank's online service.
- **Service Stations –** enable the receipt of information in the commercial and mortgages sectors and execution of a limited number of transactions in the account; in some branches it is possible to use the self-service equipment to deposit and issue checks; this service is currently offered at 60 service stations.
- **ATMs** – the Bank has 104 ATMs for cash withdrawals (most of which also enable the withdrawal of foreign currency (dollar, euro). Some 20 ATMs include a check deposit option.
- **Fax service** – makes it possible to receive current banking information on a variety of subjects, at the frequency specified by the client.

Sources and financing

Group financing sources include: deposits, including by means of credit obtained from the Bank of Israel; obligatory notes; various debentures; and 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.

Deposits

The Bank distinguishes between different source types by type of clients. The Bank examines the degree of concentration of the depositors, and within this framework, management has specified guidelines with regard to holding of liquid resources against large depositors. Furthermore, guidelines have been specified with regard to the ratio of volatile deposits to total deposits. These guidelines are part of the liquidity risk management system.
Total deposits from the public for the Group as of December 31, 2009 amounted to NIS 95.0 billion, compared to NIS 91.8 billion at end of 2008. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2009 by 5.2%; deposits in the CPI-linked segment decreased by 3.8%; and deposits denominated in or linked to foreign currency rose by 7.9%. For details, see the chapter on development of balance sheet items above.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorbing money for the entire banking system, and for Mizrahi Bank in particular. Banks may borrow or lend money with the Bank of Israel at a price range of .5% over or above the Bank of Israel interest rate. It should be noted that a bank that borrows money from the Bank of Israel must provide collateral, and the Bank takes this parameter into account in its day-to-day management of liquidity.
Another source for raising short-term funds is the inter-bank money market.
Among the factors influencing the scope and types of deposits in the banking system is the monetary policy of the Bank of Israel. Below is a survey of the monetary tools used by the Bank of Israel for the purpose of implementing its monetary policy:

Bank of Israel interest rate - The Bank of Israel publishes monthly the interest rate for the following month. This interest constitutes the base interest rate for tenders on loans and deposits made available to the banking system, as will be provided below.

Liquidity requirement - The directives of the Bank of Israel require banks to hold liquid balances for deposits from the public, at varying percentages, according to the period of the deposit. The required liquidity percentages are presently 6% on demand deposits and 3% on time deposits of one week to one year. Deposits for a term of 1 year or longer have no liquidity requirement. See the chapter on risk management for information on the management of liquidity risk by the Bank.

Deposits with Bank of Israel to absorb surplus liquidity - When there is surplus liquidity in the system, the Bank of Israel absorbs it through tenders on deposits that it makes available to the banking system. The deposit tenders are for a short period of 1 or 7 days, and the maximum interest in these tenders is the Bank of Israel interest it declares. Moreover, there is a window for depositing daily deposits in the Bank of Israel, unlimited in amount, at interest that is .25% lower than the Bank of Israel interest rate. This spread was reduced from .5% in March 2009. This reduction concluded the Bank of Israel's monetary plan from late 2008, aimed at increasing liquidity in the financial system and supporting growth.

Short-term loans (MAKAM) - Another financial instrument used to absorb surplus shekel liquidity is the short-term loan (MAKAM), through regular issuances to the public and the activity of the Bank of Israel in the secondary market.

Tools for injecting liquidity into the system:

Loan tenders - For the purpose of injecting liquidity into the banking system, the Bank of Israel makes available short-term credit tenders for 1-7 days, in which the minimum interest is the Bank of Israel interest. In addition, the Bank of Israel provides a daily credit window at an interest rate .25% higher than Bank of Israel interest, a spread reduced from .5% in March 2009, similar to the move concerning spreads on deposits with the Bank of Israel, as described above.
Receipt of credit from the Bank of Israel, whether through the credit tender or the credit window, is limited to the collateral amount that each bank has in the Bank of Israel.

REPO tenders - Starting in the fourth quarter of 2006, the Bank of Israel operates REPO auctions for repurchase of bonds and MAKAM loans from banks and institutional investors for 1-week and 1-month terms (in accordance with Bank of Israel plans). This tool is also intended to inject liquidity into the banking system.

Real Time Gross Settlement (RTGS) system - the RTGS system allows clients to transfer in real time NIS-denominated amounts from an account at one bank to an account at another bank. Settlement is immediate and final.

Obligatory notes and debentures issued to the public

Obligatory notes

The Bank acts 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 to the public subordinated notes under issued prospectuses.

As of the balance sheet date, all obligatory notes (Series 25--30), including subordinated notes, issued to the public by Bank Mizrahi-Tefahot, amounted to NIS 2,901 million in total par value (as of December 31, 2008 - NIS 2,122 million), of which NIS 1,651 million in subordinated notes (as of December 31, 2008 - NIS 872 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 bond series and of the subordinated obligatory note series.
In 2009, Tefahot Issuance issued subordinated obligatory notes (Series 30) of NIS 779 million par value, for consideration amounting to NIS 864 million,of which, NIS 424 million par value were allotted pursuant to the shelf prospectus dated February 25, 2009 and the shelf offering report dated October 27, 2009.

Complex capital notes

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 notes were listed for trading in early June 2007. Starting in June 2007 and through 2009, the Bank issued and listed for trading additional subordinated notes amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.
All of the Bank's subordinated capital notes (Series A) 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 notes as of December 31, 2009 was NIS 1.8 billion, compared to NIS 1.2 billion as of December 31, 2008. See Note 14 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 reiterated its AA+ rating for Bank Mizrahi-Tefahot, and modified its rating outlook from Stable to Negative. According to Maalot, the key considerations for this rating were: "The Bank's rating reflects its strong

business position, and especially in the Israeli mortgage sector, its robust resource structure, stable revenues over time, capital adequacy which supports the rating and the Bank's strong importance in the Israeli banking system. The rating is negatively impacted by an increase in risk associated with the Israel's economy over the past two years, along with a significant increase in the Bank's loan portfolio over that period.

The negative rating outlook reflects our concerns that the financial and business profile, which is currently satisfactory, would be negatively impacted by the economic slow-down in its operating environment. The negative outlook also reflects our increasing concern about the state of major borrowers in the business sector. Despite a certain recovery in Israel's economy over recent months, as reflected by several economic indicators, we believe that it would take longer for the economic recovery trend to stabilize, with deterioration of credit quality possible in the course of this period.

Should these negative effects on the Bank be stronger than we have anticipated, the Bank's financial robustness may deteriorate. A significant increase in troubled debt, followed by erosion in Bank profitability and capital base may result in a lowered rating. Over the longer term, improved stability in its business environment may support the Bank's financial robustness. Improved, more stable conditions in Israel's economy, which would be translated into lower risk in the Bank's loan portfolio, improved profitability and reinforced capital base of the Bank may result in the rating outlook being restored to Stable".

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

On April 5, 2009, Ma'alot announced that in conjunction with a review by S&P of ratings of hybrid instruments world wide, including in Israel, in view of the global financial crisis, the rating of the subordinated capital notes was lowered from AA- to A+.

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

Subsequent to the balance sheet date, on February 4, 2010, Maalot reiterated its rating of capital instruments issued by the Bank, as mentioned above.

Adjustable rate credit

A significant part of the credit loans issued by the Bank are at adjustable interest rates. In the non-linked shekel sector, the variable-interest loans are issued based on the changes in the prime interest rate. The prime interest rate is based on the Bank of Israel interest plus 1.5%, and if this ratio changes, the Bank is permitted to change the method for determining the variable interest accordingly. The prime interest rate could change every month, according to a decision by the Governor of the Bank of Israel on a change in the monetary interest.

In the CPI-linked sector, most variable-interest loans are mortgages. The rate adjustment mechanism is based on the average cost of raising sources for the mortgage banking system. The frequency of the change in interest rate on CPI-linked mortgage loans is diverse, depending on loan type: 1 year, 2.5 years, 5 years, 7 years and 10 years. In view of the decline in recent years of funds raised directly by mortgage banks (mostly due to merger of the large mortgage banks with their parent companies), the Bank reviews, in cooperation with the Bank of Israel, replacement of the “Source Anchor” with an alternative base, while maintaining the same margin.

In the foreign currency segment, most of the loans are at adjustable rates, varying with changes in the LIBOR interest rates. The commonly used periods are 1-month LIBOR and 3-month LIBOR.

Risk Management

Basel II: Pillar 3 - Market Discipline

Below is qualitative information and quantitative data related to all risk factors to which the Bank is exposed, which are managed in line with the policy set by the Board of Directors. The information ahs been compiled in accordance with disclosure requirements of Basel II recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.

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	Key attributes of equity instruments	Note 14 – Capital Adequacy
	Details of capital components	Note 14 – Capital Adequacy
Capital adequacy	Qualitative and quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 14 – Capital Adequacy
Credit risk	Qualitative and quantitative disclosure	Risk Management chapter
	Credit risk exposure by economic sector	Management Discussion, Addendum E - 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 F - Exposure to Foreign Countries
	Information about troubled debt	Note 4 - Loans to the Public
	Provision for doubtful debts by economic sector	Management Discussion, Addendum E - Credit Risk by Economic Sector
Credit risk mitigation	Qualitative and quantitative disclosure	Risk Management chapter
Counter-party credit risk	Qualitative and quantitative disclosure	Risk Management chapter
Securitization		Risk Management chapter
Market risk, liquidity risk, interest risk in bank portfolio	Qualitative and quantitative disclosure	Risk Management chapter
Operating risk	Qualitative disclosure	Risk Management chapter
Equity positions in bank portfolio	Qualitative and quantitative disclosure	Risk Management chapter
	Accounting policy	Note 1 - Reporting Principles and Accounting Policies
Legal risk	Qualitative and quantitative 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 the 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 in the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements. To the best knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

The Bank assesses its capital adequacy in accordance with Basel II rules, as prescribed in directives of the Supervisor of the Banks. Key rules and approaches applied by the Bank are described above, under Description of Basel II Guidelines in the chapter on Legislation and Supervision of Bank Group Operations. The Bank applies the standard approach to assess exposure to credit risk, the basic indicator approach to assess exposure to operating risk, and the standard approach to assess exposure to market risk. The Supervisor of the Banks has stipulated that within 3 years from the starting date of applying the basic indicator approach to assessment of exposure to operating risk, banks must transfer to using the standard approach. The Bank regularly monitors its capital adequacy ratio, in order to ensure compliance with requirements of the Supervisor of the 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 put in place an internal procedure, which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken should the capital ratio drop below specified minimum levels.

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

The Bank's capital needs are based on evolution of its business, in line with the multi-year strategic plan. The strategic plan specifies quantitative objectives in different areas of banking operations, and forms the basis for the expected level of risk assets. Based on the expected level, the Bank defines the expected capital needs, and establishes a plan for raising capital as needed. The plan to raise capital, and the distinction between types of capital instruments issued, are also subject to market conditions and cost of raising capital upon the applicable date.

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

	As of December 31, 2009	
Exposure group	Weighted risk asset balances	Capital requirement [1]
Sovereign debt	765	69
Public sector entity debt	419	38
Banking corporation debt	1,985	179
Corporate debt	32,847	2,956
Debt secured by commercial real estate	1,601	144
Retail exposure to individuals	10,762	969
Loans to small businesses	1,896	171
Residential mortgages	23,602	2,124
Securitization	25	2
Other assets	2,080	187
Total	75,982	6,839

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

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

	As of December 31, 2009	
	Weighted risk asset balances	Capital requirement [1]
Market risk	624	56
Operating Risk [2]	7,038	634
Total	7,662	690

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

	Ratio of capital to risk elements
Ratio of Tier I capital to risk elements	8.01%
Ratio of total capital to risk elements	14.25%
Total minimum capital ratio required by the Supervisor of the Banks	9.00%

Risk exposure and assessment there of

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operating risk. The risk management policies in the various areas are intended to support the achievement of the Group's business goals while limiting exposure to such risk.
Risk management at the Group is conducted regularly in accordance with Proper Conduct of Banking Business Regulation Nos. 339 and 342 by the Bank of Israel, and in accordance with the framework stipulated in Basel II, Pillar 2. Within this framework, the Group has appointed risk managers, and the Bank has established a Risk Management Department. Bank management regards the Bank's risk control and management system as one of its core competencies, so that it is Bank policy to constantly strive to improve the risk control and management system,
Bank management believes that risk control and management must be an integrative process. The management of risk from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible diversification of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements.
As part of this approach, the Bank 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 Basel II regulations for calculating regulatory capital.

The Bank has put in place an organization whereby risk management and control for the Group is composed of 5 major layers:
Board of Directors - responsible for risk and capital management at the Bank, including setting of risk appetite and limitations, setting business objectives and setting the strategic plan, as well as the risk profile derived from it. The Board of Directors approves the risk and capital management policy and monitors its implementation.
Management - committed to management of material risk to which the Bank is exposed (each Risk Owner in its own area).
Management is tasked with setting policy for management of each risk factor, determination of the Bank's position with regard to capital requirements for each risk factor, and development of strategies and tools for risk mitigation and for reducing potential damage.

Business units - these risk-taking units are at the forefront of risk management, and use tools and procedures for on-going risk management.

CRO - the Manager, Comptrollership, Planning & Operations Division is the Bank's Chief Risk Officer (CRO). The Comptrollership, Planning & Operations Division is the central line for risk control operations, using dedicated systems (sometimes different than those used by the business units) and procedures. The Risk Control Department of the Comptrollership, Planning & Operations Division uses monitoring tools as close as possible to operations of the business units and to the risk-taking events. These include intra-day monitoring tools, as described below.

Internal Audit - forms another layer for tracking and monitoring risk level. Internal Audit operations usually take place after risk has been taken. Internal Audit, using the tools in its use, acts independently to map and assess the risk level at the various units.

The list of risk factors identified by the Bank, and executives appointed as Risk Owner for each one, are as follows:

Risk type	Risk owner
Credit (including CRM and environmental risk)	Manager, Business Division
Counter-party, derivatives and counter-party, sovereigns and banks	Manager, Financial Division
Credit concentration	Manager, Business Division
Securitization	Manager, Financial Division
Market (including concentration)	Manager, Financial Division
Interest in bank portfolio	Manager, Financial Division
Liquidity (including concentration)	Manager, Financial Division
Operating (including concentration)	Manager, Comptrollership, Planning & Operations Division
Clearance	Manager, Financial Division
Reputation	Manager, Marketing and Advertising Department
Legal	Manager, Legal Department

Credit risk

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

The Bank Board of Directors has defined the credit policy, including the Bank's risk appetite for sectors, borrower groups, mortgages etc. The limitations specified under risk appetite are monitored at the frequency specified under the credit policy, and compliance with these limitations is reported to the Bank's Board of Directors and management.

The Bank is in the process of approving a dedicated policy on credit concentration risk, in which it would specify the risk appetite in this area and would specify methodology for measurement, control and reporting. Bank policy with regard to credit is based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and the implications there of on credit risk.

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policy is reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate. The Manager, Business Banking Division is in charge of credit risk management at the Bank.

The Bank applies the provisions of Basel II. Quantitative components of Basel II, and to an even greater extent, its qualitative components, significantly affect how credit risk is managed at the Bank, in particular the ICAAP process conducted in conjunction with Basel II, Pillar 2. The ICAAP process reviews credit risk management processes, including setting of credit policy and specification of risk appetite, in view of the Bank's risk profile.

Group operations with regard to credit to the public are managed by several key segments, which differ in client attributes and types of banking services these clients require, as well as in the organizational unit responsible for handling each client type:

- The Household segment and Small Business segment are under the responsibility of the Retail Division.
- The Commercial Banking segment and Business Banking segment are under the responsibility of the Business Division.
- Clients of international operations are under the responsibility of the International Operations sector of the Financial Division.

For details of client attributes in each segment, see the chapter on Description of Bank Group Business by Operating Segment and the chapter on International Operations.

As part of the credit granting process, transaction data is reviewed in accordance with criteria set by the Bank. The decision making process for granting credit is hierarchical, from branch level to Board of Directors level. Each unit which provides credit monitors on a regular basis credit repayment in accordance with terms agreed as well as the financial status of the client, based on its level of indebtedness. Any findings requiring action are reported to the entity in charge of the relevant credit.

The Bank operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, required collateral and financial covenants specified in accordance with procedures, authorization and diversification policy specified by the Bank, through to regular control by business units and dedicated control units. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of baking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

Considerations in extending credit – The considerations involved in granting credit are based mainly on the quality of the client, his reliability, financial strength, liquidity, repayment ability, seniority in the industry, length of time with the Bank, behavior in the account and on the quality of the collateral, as described below. Likewise, the Bank works to match credit type and terms to client needs. In cases in which loans are issued based solely on the quality of the borrower, without a collateral requirement, certain contingencies are set at times, including compliance with financial covenants.

Procedures - Procedures for granting credit and for processing credit and collateral, as well as the relevant IT systems there for, are regularly reviewed and updated to adapt them to the changing business environment, while learning lessons from different events.

Risk diversification - The Bank's credit policies are based on diversification and controlled management of risk. Risk diversification is characterized by several aspects: Diversification of the loan portfolio across economic sectors, including increased exposure to specific sectors, diversification across client size groups, diversification across different linkage bases, geographic diversification if applicable (construction sector, mortgages). For details on concentration risk management, see below.

Authority to extend credit – In order to streamline the decision-making process as it relates to granting credit while minimizing risk, a ranking of authority was determined for officers and credit committees at different levels, up to the level of the Board of Directors and its Credit Committee.
Credit-granting decisions, beginning from the district level, are made by credit committees in order to minimize the risk in relying on the judgment of a single individual. The credit authorizations include limitations on credit limit as well a on the percentage of unsecured credit that each authorized official is permitted to approve, and other guidelines were prescribed relating to the prerogative to exercise authority in certain situations.

Currency exposure in credit - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these clients. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for clients, when securities form a significant element of their collateral.

Credit in the construction and real estate industry - In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand and mid-level prices. In addition, the financing is allocated between geographic regions, based *inter alia* on relevant demand.

In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risk in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risk inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by branches with professional knowledge of the subject, and under the supervision of the regional affiliates of the construction and real estate sector.

Borrowers' rating - The Bank has developed a system for rating business borrowers, based on a computerized testing model that combines quantitative and qualitative assessments of a borrower, which has been adapted for a range of business borrowers according to various economic sectors. The Bank regularly maintains the different existing models and develops new models, and acts to adapt, update and improve them in line with changes in the business environment.
This system is used for most of the Bank's business loans. The objective of the system is to provide for credit risk management and to support decision making processes. The system determines the rating of a borrower as a function of the quality of the client, the collateral furnished and the amount of credit received. The credit rating also constitutes a basis for pricing credit.

Monitoring and control - Control over credit operations is a key component in maintaining quality of credit extended by the Bank to clients, including maintaining the quality and position of collateral required to secure credit. The Bank continuously acts to identify and locate, as soon as possible, any indications of impairment of borrowers' repayment capacity or any deterioration in the state of their collateral, in order to avoid potential credit failure. The Bank applies different control mechanisms, some of which are internal control within the credit management chain, which are regularly conducted by branches, regions, headquarters and specific units involved, and some - controls by entities external to the credit process.

The control mechanisms at branches, regions and headquarters are based on Bank procedures as well as internal procedures of these units, and are regularly followed as part of the normal business routine of the various levels. Each credit level controls the relevant credit decisions of those levels reporting to it, as well as the current credit behavior of these clients.

Additional controls are implemented by headquarter units of the Business Division, at different frequencies, by different entities which report to their supervisors. There are lateral identification and control processes in place, along with specific processes adapted to each sector's unique operations.

Furthermore, the Mortgage sector conducts an internal review process aimed at identifying faults and weaknesses soon after they actually occur. The process is designed to draw attention of the relevant entities to quality of work at the branch, quality of underwriting and adherence to procedures and regulations.

Concurrently, control is exercised by dedicated Bank units. The Credit Tracking and Control Department, of the Business Division, uses computer systems to discover and alert to unusual accounts and clients, including based on information external to the Bank. Control is applied to banking operations in accounts flagged due to risk indications, based on criteria specified by the Bank for the population under control, as well as for all Bank clients by means of IT systems which provide alerts and report notifications and unusual occurrences. In the Real Estate sector, a dedicated control unit operates to control and review various aspects with regard to handling of real estate transactions by the Bank. In the Mortgage sector, a nation-wide underwriting center operates to enhance control of complex loan approval or of special populations, where loan approvals are provided by a professional, specialized team working at the Mortgage headquarters.

The Risk Control Department in the Comptrollership, Planning and Operations Division controls credit risk. This control is carried out in accordance with the Bank of Israel's Proper Conduct of Banking Business Directive no. 319, by rating borrowers and quality of the Bank's loan portfolio, based on an annual work plan approved by the Board of Directors' Credit Committee.

This work plan includes at least the following:

- Monitoring low-rated borrowers on criteria model or on independent rating by the Risk Control Department.
- Credit control at London and Los Angeles branches via external entities which report to and are professionally guided by the Risk Control Department in Israel.
- Credit control at the Cayman Islands branch by the Risk Control Department, in conjunction with the aforementioned work plan.
- Testing of reliability and quality of rating provided by the credit departments, with reference to quality of the model and rating results that it generated, and their implications for the Bank's loan portfolio.
- Analysis of the mortgage portfolio, including developments in extending residential credit and our share of the system, as well as credit breakdown by different criteria.
- Review of the Bank's loan portfolio in view of the credit policy and risk appetite limitations adopted by the Bank.

Monitoring and control systems - the Bank Group regularly uses computer systems for management and control of credit risk. These computer systems provide control tools for personnel, including the specific unit assigned with identifying and controlling credit risk, to identify loans that exceed credit limits or are under-collateralized, as well as tools for identifying credit-risk developments resulting from the existence of various parameters in client-account development and management. There are several significant systems which play an important role in processes of credit management, risk management and control, including risk management systems (Algorithmics system), systems for identifying and alerting credit risk, for providing alert information, monitoring of financial covenants, automatic debt classification system and computer system for control and management of all accounts under legal proceedings.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Therefore, the handling of these clients is concentrated in a separate sector in the business banking division.

In order to identify credit risk materializing at the Bank, the Bank regularly conducts a process to review and identify troubled debt, based on specified criteria. These criteria include criteria requiring debt classification, as well as alert criteria, which allow for professional judgment to be exercised. Debt is reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels, granted to committees in the Business Division's management, the Bank's management and the Bank's Board of Directors. Concurrently with the identification and classification process, a built-in, independent control process is conducted by regions and by headquarters.

A computer system which supports application of provisions of Proper Conduct of Banking Business Regulations Nos. 314 and 325, including identification and control processes, carries out logical, criteria-based testing and determines defaults for debt classification as debt under special supervision, debt in arrears, debt in restructuring and non performing debt, as required. Debts for which a provision for doubtful debts has been made, are classified as doubtful debts for their non-performing component, unless it is proven, with a high degree of certainty, that the Bank may be repaid out of the non-provisioned debt balance, including accrued interest.

Provision for doubtful debts – The Bank uses a system of computer reports for identifying accounts, clients and transactions with higher than usual credit risk. Decisions on making provisions for doubtful debts are based on scanning the entire credit portfolio, assisted by the aforementioned reports, using a structured procedure which determines, inter alia, the authority to review and decide on such provisions. In making the decision, considerations are made with regard to the nature of the transaction, the financial status of borrower and guarantors, and the size and quality of collateral provided to the Bank. In addition, a valuation of the impact of changes in the business environment on the borrower and their business is carried out.

The provision for doubtful debts in residential and general-purpose mortgage loans is made by extent of arrears, except for jumbo loans and loans subject to special circumstances, as defined in Proper Conduct of Banking Business Regulations - for which a provision is made based on individual review.

Other than specific provisions and provisions by extent of arrears, an additional provision is made, calculated in accordance with rules set forth in Proper Conduct of Banking Business Regulation no. 315. This supplementary provision is primarily for risk balances of troubled credit, and is calculated as a percentage of troubled credit as follows:

Debt under special supervision	1%
Debt in temporary arrears	2%
Debt in restructuring	3%
Non-performing debt	4%

The Bank also records a supplementary provision, as required, for borrowers with no financial information and for exceeding other limitations, as stipulated in Proper Conduct of Banking Business Regulation no. 315.

In accordance with directives of the Bank of Israel with regard to measurement and disclosure of impaired debts, the Bank is preparing for implementation of this directive and its operation. For details of the regulation and the Bank's preparations for its implementation, see Note 1.X to the financial statements.

In view of the crisis in global financial markets, the Bank tightened its means of control and reporting of exposures, including a comprehensive sweep of all accounts and clients, in order to better supervise and control the credit portfolio. Specifically, Bank exposure to entities directly and indirectly exposed to the global financial crisis have been mapped and evaluated, and monitoring of this exposure is carried out stringently and on a regular basis. Furthermore, the Bank regularly monitors its exposure to foreign financial institutions, in accordance with directives of the Supervisor of Banks.

Environmental risk - In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. 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 the 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. The Bank's Board of Directors is required to approve the criteria and schedule for implementation as stated in the letter, no later than June 30, 2010. The Bank is preparing to implement the Supervisor of the Banks' directives.

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

	Up to 1 year	1-5 years	Over 5 years (1)	Total
Balance sheet exposure				
Deposits with banks (2)	9,599	449	242	10,290
Securities (3)	2,351	4,260	897	7,508
Securities loaned or sold in repurchase agreements	307	-	-	307
Loans to the public (4)	25,414	17,749	52,196	95,359
Loans to the Government	301	-	-	301
Off-balance sheet exposure				
Guarantees and other commitments on account of clients	36,479	6,111	431	43,021
Futures transactions (5)	1,788	739	939	3,466
Total	76,239	29,308	54,705	160,252

(1) Includes balances with no maturity.
(2) Excludes cash.
(3) Excludes investment in shares and balances deducted from capital base.
(4) Excludes general provision for doubtful debts, which is part of the capital base.
(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.

Credit risk - standard approach

Information of exposure amounts by weighting of risk asset, as of December 31, 2009, is as follows:

Risk weighting	Exposure before credit risk mitigation (1)	Exposure after credit risk mitigation (1)(2)
Rated exposures:		
0%	13,481	13,481
20%	1,751	1,787
50%	2,824	2,841
100%	146	150
150%	490	440
350%	2	2
Amounts deducted from capital	85	85
Total	18,779	18,786
Non-rated exposures:		
0%	939	939
20%	489	489
35%	41,263	41,256
50%	3,385	3,622
75%	37,653	35,143
100%	60,003	53,157
150%	685	642
Amounts deducted from capital	101	101
Total	144,518	135,349
Includes:		
Retail exposure to individuals	22,901	21,588
Loans to small businesses	4,363	3,098
Residential mortgages	53,571	53,550
Other assets	3,109	3,109

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

(2) Credit risk mitigation: Mitigation using guarantees, credit derivatives and other qualified collateral. Mitigating credit risk by using guarantees results in exposures moving from their original exposure groups to exposure groups with a lower risk weighting factor. Consequently, sometimes exposure in a certain exposure group after credit risk mitigation (total which includes exposures moved from other exposure groups) is higher than total exposure for this group before risk mitigation.

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
Communications and computer services	287
Financial services	238
Total	(1)525

(1) These exposures have been repaid subsequent to the balance sheet date.

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

			As of December 31, 2009
External credit rating	Balance sheet credit risk (3)	Off-balance sheet credit risk (4)	Current credit exposure
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

			As of December 31, 2008
External credit rating	Balance sheet credit risk (3)	Off-balance sheet credit risk (4)	Current credit exposure
AAA to AA-	2,485	408	2,893
A+ to A-	1,639	19	1,658
BBB+ to BBB-	131	15	146
BB+ to B-	75	30	105
Lower than B-	155	-	155
Unrated	46	-	46
Total credit exposure to foreign financial institutions	4,531	472	5,003
Balance of problem loans (5)	124	-	124

(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 3 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 19.E 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 Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for that institution, and only ratings provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with the financial institution is also taken into consideration. The policy also sets forth 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 these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

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

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

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

Credit risk mitigation

The Bank Group takes different actions to mitigate risk associated with extending credit and with credit concentration (on this issue, see chapter on credit concentration). Below is a description of major tools used to mitigate risk in conjunction with the Bank's credit policy.

Collateral – Bank procedures specify the asset types which may be recognized as collateral for providing credit. The commonly used collateral types at the Bank are: Deposits, securities, liens on real estate, vehicles, , credit vouchers, checks, bank guarantees and institutional, corporate or individual guarantees. As part of the collateral policy, rules and principles were prescribed as to the level of reliance on each type of collateral, with regard to its character, marketability, price volatility, promptness of realization and legal status, in addition to assessing the repayment ability of a client as a criterion for issuing the loans.

The collateral is matched, as far as possible, to the type of credit that it secures, while taking into account the period of time, types of linkage, character of loans and their purpose, as well as how quickly it can be realized. Collateral coefficients determine the extent to which the Bank is willing to rely on specific collateral to secure credit. The value of the collateral, with the use of safety factors, is, as far as possible, calculated automatically by the IT systems. The safety factors for different types of collateral are examined at least once a year and are approved by the Board of Directors' Credit Committee. There is also collateral in place which is not accounted for in calculating safety factors, but only used to reinforce existing collateral. The Bank also approves, on a limited, case-by-case basis, the granting of credit solely on the basis of the borrower's obligation.

Bank procedures specify rules for ongoing collateral management, including updates to the value of collateral: Deposits and bank guarantees are regularly updated based on their terms and conditions; collateral consisting of negotiable securities is regularly updated based on its market value; with regard to collateral consisting of real estate, the procedure determines the date for valuation by a licensed assessor in accordance with the type of credit secured by the property. Valuation is also carried out in case of concern regarding material impairment of the collateral, which may cause the Bank to face shortage of collateral.

As described above, including in the chapter on Basel Committee Recommendations, the Bank makes extensive use of collateral not recognized under credit mitigation rules of Basel II (real estate, liens on automobiles, personal guarantees) in order to mitigate credit risk.

Hedges - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these clients. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for clients, when securities form a significant element of their collateral.

Credit insurance – The Bank used credit insurance for housing loans (mortgages), so that mortgages with high loan-to-value ratios are secured, for the part exceeding the loan-to-value ration determined by the Bank, by the EMI insurance company. Accordingly, the Bank reduces risk associated with the loan to a limited share of total collateral. For further details, see the chapter describing the Household segment.

Concentration - a current, dedicated policy on concentration risk with regard to credit is in the process of being approved. Nevertheless, the Bank's credit policies are based on diversification and controlled management of risk.

Risk diversification is characterized by several aspects:

- Diversification of the loan portfolio among the different economic sectors, including limiting exposure in certain sectors.
- Diversification over sized groups of clients.
- Diversification over linkage segments.
- Geographic diversification where relevant (construction industry, mortgages).

Industrial sectors: The Bank's Executive Management and Board of Directors hold discussions on the issue of credit to certain industrial sectors, as is necessary, mainly as it relates to industries that are sensitive to fluctuations in business cycles. Credit policy for the sensitive industries is set on the basis of an economic analysis of the developments forecast for these industries.
The Bank maintains distribution of indebtedness among different sectors, so as not to create extraordinary indebtedness according to provisions of Proper Banking Conduct Regulation 357. Loans to certain sectors, such as diamonds, agriculture, construction, local authorities, leasing credit and start-up companies – are handled by professional units or by personnel specializing in these industries. Specific rules and procedures have been prescribed for these specific sectors, beyond those relating to the issue of credit, in order to deal with their special credit risk.

Large clients: The Bank provides credit to large clients through the Corporate sector, which operates teams with sector expertise. Occasionally the Bank limits its share of credit to a major client relative to total extent of credit to that client in the banking system, and in some cases, in order to participate in financing of certain transactions, the Bank requires a financing package to be put in place with participation of other banks (under consortium agreements). The Bank maintains compliance with limitations on indebtedness of borrowers and borrower groups, as well as total indebtedness of the six largest borrowers, according to provisions of Proper Banking Conduct Regulation 313. For further details with regard to clients served by the Corporate segment, see chapter describing the Bank's operating segments - Business Banking segment.

Linkage segments: This distribution is also reflected in providing credit in various linkage segments, so that part of the credit is more susceptible to fluctuations in the Consumer Price Index (CPI-linked credit), some is more susceptible to changes in the prime lending rate (non-linked NIS-denominated credit), and some – to foreign currency exchange rate fluctuations (foreign-currency denominated credit or linked to foreign-currency exchange rate).

Geographic diversification: The Bank maintains geographic diversification with regard to credit for construction and mortgages, in order to reduce over-concentration in extending credit.

The following is breakdown of exposures covered by credit risk mitigation, by exposure group as of December 31, 2009:

Exposure group	Net exposure (1)(2) covered by qualified financial collateral	Net exposure (1) covered by guarantees or credit derivatives	Total credit risk mitigation
Government debt	-	-	-
Public sector entity debt	4	-	4
Banking corporation debt	(6)	60	54
Securities corporation debt	-	-	-
Corporate debt	6,420	250	6,670
Debt secured by commercial real estate	164	6	170
Retail exposure to individuals	1,311	2	1,313
Loans to small businesses	1,250	15	1,265
Residential mortgages	19	2	21
Securitization	-	-	-
Other assets	-	-	-
Total	9,162	335	9,497

(1) After on- and off-balance sheet set offs.

(2) After multiplying by safety factors (haircuts), and supplementary reduction with respect to potential impact of future market fluctuations on exposure.

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.

Restrictions and controls - a limit restriction applies for banks and governments, including reference to derivatives. Furthermore, a client limit restriction applies based on certain parameters. The Risk Control Division includes a dedicated department, specialized in control of exposure arising from capital market operations, which daily reviews clients active in this field. The trading room operations are controlled, including testing of compliance with various limitations prescribed by the Board of Directors and Executive Management.

Starting in 2008, the Bank started using another mechanism for control and management of client risk, by measuring VaR (Value at Risk) of the client portfolio on a regular basis and frequently during the day.

Risk mitigation - in order to participate in capital market activity, clients are required to provide collateral in accordance with Bank procedures. In its activities vis-à-vis banks and governments, the Bank signs ISDA agreements and CSA addendums. This allows for setting off transactions, such that the amount exchanged between parties to the transaction is limited to the net exposure amount, thereby reducing exposure of either party. CSA addendums regulate funds transfer between parties to a transaction whenever exposure reaches a certain predefined level, thereby reducing counter-party exposure.

Below is the current credit exposure with respect to derivatives, as of December 31, 2009:

Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives [2]	Total
Face value of derivatives (OTC) 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 19e.

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. For details of exposure to asset-backed securities, see Note 3 to the financial statements.

Market risk

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

The Bank focuses on two major market risk factors:

- **Interest** risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results 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.

Any new activity by the Bank (new financial product, new exposure type, market making etc.) is approved by the Board of Directors, after studying the market risk associated with this activity and setting limitations and mechanisms for management, measurement and control of such risk, in accordance with the New Product procedure. In accordance with directives of the Bank of Israel, in the course of risk management at the Bank, it also accounts for exposure to market risk by subsidiaries.

Risk management at the Bank consists of two main risk clusters: the bank portfolio and the negotiable portfolio. In 2009, as part of preparations for application of Basel II guidelines, the Bank defined and re-confirmed the structure of the negotiable portfolio.

Basel II defines the negotiable portfolio with emphasis on marketability, with clear guidance as to negotiable instruments which the Bank intends to trade for gain. The new definition of the negotiable portfolio at the Bank includes the portfolio of securities held for trading, the option portfolio, credit derivatives and futures contracts on debentures, other derivatives portfolios in which the Bank acts as market maker, certain transactions (available-for-sale debentures and derivatives transactions) conducted as part of a specific strategy, as well as on-balance sheet transactions to be measured in the future at fair value, in accordance with US standard no. 157. The Bank's portfolio consists of all transactions not included in the negotiable portfolio, including financial derivatives used to hedge the bank portfolio, and in fact includes the majority of Bank activity.

Interest risk in Bank's portfolio

Interest risk in the Bank's portfolio is the risk of erosion of the Bank's portfolio (including, as set forth above, all transactions not included in the negotiable portfolio, including financial derivatives used for hedging the Bank's 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 portfolio is monitored on a weekly basis, both in managing interest risk for the overall portfolio in VaR terms, and individually 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. Interest risk measurement using this model started in the fourth quarter of 2007.

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):

						December 31, 2009
						Change in fair value
	Israeli currency		Foreign currency denominated			
	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. The prepayment rates are determined by linkage type and interest type, and based on statistical analysis of past prepayment events.

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

The VaR model (Value At Risk)

As required according to the directives of the Bank of Israel, the Bank calculates the VaR values and the stress-test values on a monthly basis. The VaR is calculated by 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.

A summary of the models used by the Bank in calculating value at risk is presented below:

The VaR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a pre-determined statistical level of assurance.

The VaR value constitutes an estimate of the level of market risk in financial terms. The VaR value can increase as a result of an increase in volatility in those risk factors, or as a result of an increase in the risk level inherent in different positions in a bank's portfolio. The VaR estimate is to be seen as a "risk thermometer", because an analysis of the VaR results on a day-to-day basis enables management to obtain value information on the risk level inherent in the Bank's various activities, to ascertain the Bank's risk profile, and to take the measures necessary to hedge certain risk in Bank operations.

The VaR model is suitable for ordinary market conditions and does not estimate possible losses beyond the absolute level that was determined in the calculation. Therefore, the Bank strengthens the methodology with stress tests.

Stress tests – This model estimates the Bank's expected loss as a result of sharp fluctuations in the prices of risk factors in the market. Essentially, this model, by its various methods, estimates the potential loss in the "left tail" of the dispersion, i.e., beyond the significance level determined in calculating the VaR. The Bank's stress test methods are two-fold: subjective methods, relying on a decision by the Stress Test Committee established in the Bank; and objective methods, relying on factors including extreme events and scenarios that occurred in the past.

The Bank has set up a managerial and technical infrastructure to calculate the VaR model and the stress tests under different alternatives. The results of the models, including an analysis of the results, are reported on an ongoing basis to the Bank's Market Risk Manager and to the President, and quarterly to the Board of Directors.

Some of the VaR calculations are based on historical data. Accordingly, the Bank examines the quality of models used in the VaR calculations, including through back testing, in order to improve the forecasting ability of the models that it uses.

The Bank works constantly to improve the models that it uses, from all of the necessary standpoints, viewing these innovative models as important management tools. It also works to expand the use of these models as tools for monitoring and controlling the risk level inherent in its activities, in different areas. Over the past year, the Bank has continued to expand use of these models, inter alia, in order to review some of its investment decisions. This was achieved by reviewing the potential gain from the investment alternative and reviewing its inherent risk, expressed by the change in VaR from execution of the new transaction (incremental VaR).

Market risk in both portfolios is managed overall by using the VaR model and stress tests. Since 2005, the Bank operates within the Board of Directors' limitations of market risks in terms of VaR and stress tests. For application of these models, the Bank's available capital is defined as a non-linked NIS-denominated source. The Board of Directors' limitations prescribe that the VaR for all of the Bank's activities in one-month investments, in the highest of several calculation methods, will not exceed 6% of shareholders' equity, and that the maximum loss in stress tests, in the highest of several calculation methods, will not exceed 15% of equity. The Risk Control Division conducts back testing to ascertain adequacy of the VaR model on a monthly basis, using advanced models in this field. The Bank regularly monitors and controls exposure to the subsidiaries' exposure to the different market risk.

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):

	All of 2009	All of 2008
At end of period	291	112
Maximum value during period	291 (Dec.)	153 (Oct.)
Minimum value during period	164 (Jan.)	80 (Feb.)

Following consulting provided by international experts, the Bank is conducting back testing of the adequacy of the new VaR model developed by the Bank. Review of the back testing of the VaR model for a 1-day investment horizon indicates that in 2009, the model was also in compliance with criteria stipulated by the Basel guidelines.

Organizational structure of market risk management function (interest and basis)

The procedure for market risk exposure, approved by the Bank's Board of Directors in 2005, prescribes, *inter alia*, the ranking of authorization levels for market risk management and frequency of discussions and reporting of exposure status at different levels. According to this procedure, the President is authorized to make risk-management decisions, subject to the frameworks prescribed by the Board of Directors. The Bank's risk management policies are discussed, formulated, and monitored by the Management Committee for the Management of Assets and Liabilities chaired by the Bank's President. This committee generally meets once a month, or more frequently, when special developments in the various markets occur or are forecast. According to this procedure, the Bank President is required to immediately report to the Board of Directors any deviation from the Board restrictions, and any occurrence of extraordinary events, whether internal or external.

The Finance Division Manager, who also functions as Risk Manager, heads a Monetary Committee that meets weekly to deal with practical aspects of the management of assets and liabilities. The Risk Manager is empowered to reach decisions on issues relating to the management of exposure in all the linkage segments, in order to implement the policies prescribed by the President, subject to the limitations prescribed by the Board of Directors. The Manager, Financial Division specifies guidelines for current operations of market risk management, subject to limitations specified by the Board of Directors. The risk appetite changes in line with changes in the economic and business environment.

The Manager, Financial Division reports to the Bank President any deviation from management limitations, in excess of the deviation permitted to the market risk manager. Any use of the market risk manager's authority to deviate should be reported at the next meeting of the Management Committee on Asset and Liability Management after the date of such deviation.

Examination and control of the various market risks is carried out on a day-to-day basis by the Financial Management Sector in the Finance Division. Market risk controls are carried out by the Risk Control Department in the Controllership, Planning and Operations Division. The mechanisms for quantifying the exposures and controlling the compliance within the approved activity frameworks are anchored in internal work procedures. The Bank's Board of Directors receives an update once every six weeks on the status of the management of assets and liabilities in the various linkage segments. The Board of Directors also holds a quarterly discussion on the "Exposure Report", as defined in Proper Conduct of Banking Businesses Regulation No. 339.

Upon any unusual occurrence in the capital market, such as an unexpected change in interest rates, shake-ups in the foreign currency markets, changes in fiscal and/or monetary policy, the aforementioned committees convene for a special discussion in order to reach the decisions required by these occurrences.

Nature and scope of reporting systems for market risk (interest and basis)

The Bank operates a "risk monitoring forum" which convenes monthly, with the objective of setting the Bank's extreme scenarios, discuss and prescribe the methodology for managing and controlling risk. The Forum is headed by the Manager of the Controllership, Planning and Operations Division. Also members are representatives of the Finance Division, of the Controllership, Planning and Operations Division and of the Accounting and Reporting Department. The regular activities of the forums enables the existence of day-to-day communications regarding the management of different risks among all the divisions in the Bank that take part in the process of managing and controlling risk.

Hedging and risk mitigation policy

The Bank reduces exposure to market risk of on- and off-balance sheet positions by initiating hedging derivatives transactions, managing composition of the nostro portfolio, and price alignment aimed at promoting activity in desired areas. Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item are nearly fully set off by changes in fair value or cash flows of the hedging instrument. When hedging instruments and hedged items are not fully identical, hedge effectiveness is tested quarterly.

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 December 31, 2009:

Profit (loss), NIS in millions

			Scenarios	Extreme historical	scenario (1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	195.1	97.5	(97.5)	(195.1)	58.5	(17.6)
Dollar	65.2	19.2	(0.8)	11.7	20.7	(2.4)
Pound Sterling	4.9	2.5	(0.4)	0.7	3.8	(0.5)
Yen	(0.1)	0.4	(0.7)	(1.4)	(1.0)	(0.9)
Euro	(4.9)	(6.0)	3.4	4.5	(7.4)	3.7
Swiss Franc	3.2	(2.5)	(0.3)	(1.5)	1.4	(0.6)

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

Interest risk

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

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

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

	December 31, 2009					
	Israeli currency		Foreign currency [2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
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]:

	December 31, 2009							
	Israeli currency		Foreign currency [2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
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 0.1%	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 presented in Note 20 to the financial statements.

(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for that 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.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 20 to the financial statements.

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 are intended to provide protection against a 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 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, as of December 31, 2009 (NIS in millions):

	Capital requirements [(1)]		
	Specific risk	General risk	Total
Risk component [(1)]			
Interest risk [(2)]	5	18	23
Equity risk	-	1	1
Foreign currency exchange rate risk	-	32	32
Total market risk	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 the Banks' directive.

(2) Calculated using the Effective Duration approach, as defined in the Supervisor of the 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, as described below, 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". 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 different Bank units with the liquidity "providers" and liquidity managers.

The Bank’s Board of Directors approved, in late 2004, a policy document containing a ranking of authority levels, procedures, limitations and emergency plan in the event of a liquidity crisis. In 2008, the policy document was expanded in line with directives of the Basel II Committee. Bank management has set limitations and guidelines on the following:

– A ratio of liquid resources to financing requirements higher than 1, to be used as a “safety cushion”.
– The optimal composition of liquid resources to cover the “safety cushion” and the financing needs.
– Allocating liquid resources against the balances of large depositors.

Highlights of this policy are:

- A range of reports to management and to the Board of Directors, distributed regularly.
- Key risk indicators (both internal and external), which alert of potential liquidity issues for the Bank or for the banking system.
- Resource monitoring - rules for monitoring source composition, especially for volatile sources. For the purpose of liquidity risk management, sources are distinguished by client types and by their degree of volatility. Guidelines have been specified with regard to the ratio of volatile deposits to other deposits.
- Survival horizon - measurement of the duration (in days) in which the Bank can survive on its own resources, without raising any external resources. The survival outlook is reviewed in the normal course of business and under four major extreme scenarios.
- Detailed emergency plan. This plan is part of the emergency financial procedure approved by the Board of Directors.

In 2009 there were no recorded deviations from the Board of Directors' limitations.

Liquidity risk at the Bank, in view of the recent credit and liquidity crisis, is managed with extreme conservatism, while maintaining high liquid reserves and constantly reviewing the Bank's position under liquidity scenarios of various severity levels and types. Regular monitoring of internal and external risk generators has also been elevated, so as to indicate change in liquidity levels within the banking system as a whole and at the Bank in particular. The Bank manages liquidity risk in the manner set forth above, despite the fact that the global credit crisis has not impacted the Bank's liquidity.

Nature and scope of reporting systems for liquidity risk

In conjunction with application of Directive 342, a system of periodic and immediate reports to various entities at the Bank has been implemented. The Bank's Board of Directors and management receive various reports on a daily, weekly, monthly and quarterly basis. Unusual events in liquidity management, including unusual developments in liquidity sources of the Bank, are immediately reported to management and/or to the Board of Directors.

- Daily liquidity report - summary report of compliance with limitations set by the Board of Directors and by management, of excess liquidity forecast for the coming year, of resource distribution, of compliance with stress scenarios.
- Weekly liquidity report - report submitted to the Management Forum.
- Monthly liquidity report - report submitted to the Management Committee and to the Board of Directors.
- Quarterly liquidity report - report submitted to the Board of Directors, in conjunction with the Exposure Document.

Surplus liquid means over financing requirements in NIS is invested mainly with the Bank of Israel and with Israeli commercial banks, for terms of up to one week, as well as in government debentures. Surplus liquid means over financing requirements in foreign currency is invested with the Bank of Israel, with the Federal Reserve Bank and in debentures which may be quickly realized. The credit exposure management policy reflected in management of excess liquidity in foreign currency has been revised in line with global economic reality. The Bank frequently reviews credit facilities to various financial entities and operates vis-à-vis banks with the highest level of financial robustness, for the shortest duration possible, while maintaining diversification among different entities.

Presented below are major data reflecting market risk, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2009, the Group's capital exceeded its non-monetary items by NIS 5,045 million. The Group's free capital, which includes financial capital, plus loans that were classified as an investment in shares, in accordance with the guidelines of the Supervisor of the Banks, and plus the general and supplementary provision for doubtful debts, financed in 2009 is primarily used in the non-linked NIS-denominated segment and in the CPI-linked segment, based on the current asset and liability management policy at all times.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2009 and 2008 are presented in Note 17 to the financial statements. However, the extent of the Bank’s economic exposure is not fully reflected in the positions included in this note because of differences in the treatment of capital items, in certain problem loans, in investments in investees and the remaining non-monetary items, between the accounting approach and the economic approach (as explained below).

In order to reflect the Bank’s economic exposures, the Bank classifies certain problem debts as loans in the non-linked NIS sector, instead of the original loan sectors.

Excess CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2009 as presented in Note 17 to the financial statements, amounts to NIS 1.9 billion. After allocation of the general and supplementary provision for doubtful debts to free capital and the classification of certain problem loans to the non-linked NIS sector, the position in the CPI-linked sector as of December 31, 2009, amounts to an excess of uses of NIS 1.8 billion. As of December 31, 2008, the surplus uses amounted to NIS 1.2 billion.

Excess foreign currency assets of the Group, which include balance sheet and off-balance-sheet assets and liabilities as of December 31, 2009, as presented in Note 17, amount to excess assets of NIS 97 billion. Foreign currency liabilities include foreign currency deposits of NIS 294 million used to finance investments in overseas subsidiaries, of which NIS 282 million are stated in the balance sheet as non-monetary items. The allocation of foreign currency deposits to finance the overseas investments correspondingly reduces the liabilities in the foreign currency sector. After the allocation of the general and supplementary provision for doubtful debts to free capital, and the reclassification of certain problem loans to the non-linked NIS-denominated sector, the Bank has excess foreign currency sources as of December 31, 2009 of NIS 34 million, compared with excess sources of NIS 169 million as of December 31, 2008.

The position in the non-linked NIS sector, after allocation of free capital and reclassification of certain problem loans, balances the open economic positions in the CPI-linked and foreign currency sectors.

In Addendum D to Management Review, the Group's exposure to interest on a consolidated basis is presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for early mortgage repayment. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 20 to the financial statements.

In the non-linked shekel sector, the effective duration gap of liabilities to assets is just .05 of a year, due to the fact that most of the activity in the unlinked shekel sector is at variable interest, linked to the prime rate, and the resultant interest risk is minimal. The effective duration gap does not reflect the degree of risk in exposure to fixed interest, which, as noted, is measured in the VaR model and stress tests.

The gap between the internal rate of return (IRR) of financial assets over the IRR of financial liabilities is 1.28%.

The effective duration of liabilities in the CPI-linked sector is .74 years longer than the effective duration of assets. Calculation of the effective duration is based on assumptions with regard to early withdrawals of savings and loans. Without these assumptions, the effective duration of liabilities exceeds that of assets by .03 years.

The difference between IRR of financial assets and IRR of financial liabilities, without assuming early repayment as stated above, increases from .76% to .85%.

In the foreign currency sector, the effective duration of liabilities exceeds that of assets by .08 years. In this sector, most of the activity is in variable interest, linked to the Libor rate, and, therefore the duration to maturity in this sector is low. The effect of the assumption of prepayment of savings and loans on differences in the duration to maturity and IRR is negligible.

The difference between IRR of financial assets over IRR of financial liabilities is 1.24%.

Term to maturity - The Bank's cash flows by term to maturity, as detailed in Note 18 to the financial statements, differ in character between different linkage segments, according to the type of activity in each sector.

In the non-linked NIS-denominated sector, most of the activity, on both the sources side and the uses side, is concentrated in terms of up to one year. As of December 31, 2009, some 90% of all liabilities have such terms (compared to 89% as of December 31, 2008), and 76% have terms of up to one month (compared to 73% as of December 31, 2008).

In the CPI-linked sector, the main activity on the sources side was soliciting deposits. Most of the deposits are for ten-year periods, with the possibility of withdrawal at the end of two years. The Bank anticipates that these deposits will be withdrawn before the end of the period, although, according to the accounting guidelines, these balances are presented in the note based on the maximum period. The percentage of liabilities for terms above two years out of total liabilities rose from 70% at the end of 2008 to 75% at the end of 2009. The Bank recycled in 2009 some 125% of withdrawals of CPI-linked deposits into new deposits in a range of deposit available at the Bank, compared with 100% in 2008.

In foreign currency, there are surplus long-term uses financed from short-term sources of up to one year. Past experience has shown that the short-term deposits are recycled regularly, constituting a basis for long-term uses in foreign currency.

Soliciting sources and Bank liquidity status - During 2009, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 91.8 billion on December 31, 2008 to NIS 95.0 billion on December 31, 2009, an increase of 3.5%.

The increase was primarily in the foreign currency sector. Total deposits from the public in this sector amounted to NIS 21 billion, an increase of 8% compared to 2008. In the CPI-linked sector, deposits from the public amounted to NIS 22 billion, a decrease of 4%, and in the NIS sector - to NIS 52 billion, an increase of 5% compared to 2008.
In 2009, there were no limits on the possibility of soliciting different types of deposits in the Bank.

Market risk associated with derivatives activities

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 trades in financial derivatives in the foreign currency, non-linked Israeli currency and CPI-linked Israeli currency sectors.

The trading in financial derivatives is mainly conducted in the Bank's trading room and is classified into three categories: hedging trades, trades for the purpose of asset and liability management (ALM) and other trades, as detailed in Note 1.O to the accompanying financial statements.
The Bank operates in credit derivatives in its nostro portfolio. In these operations, the Bank guarantees eligibility for payment in case of changes in credit rating, failure to meet obligations or any other credit event related to counter-parties which are states or overseas banks. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee. The par value of these credit derivatives as of December 31, 2009 amounted to NIS 934 million, compared to NIS 964 million at the end of 2008.

The policy for managing the options portfolio is based on the "delta-neutral" strategy. The activities in options are subject to the quantitative limits prescribed by management, which include delta exposure (sensitivity of option price to change in price of the underlying asset), maximum VaR value for an investment of one day at an absolute level of 99% calculated by the Monte Carlo method and maximum losses under different scenarios. The VaR limitation for the Bank's option portfolio is calculated intraday every hour.

The Bank operates, as part of its risk management system, a module which tests the VaR, sensitivity of option prices to changes in various parameters which determine its price (such as: price of underlying asset, standard deviation and interest rate), and the value of stress tests on the Bank's option portfolio. System VaR calculations are made hourly, intra-day. The Bank has started the process of expanding use of this module to its entire derivative operations.

The volume of transactions in financial derivatives according to the different categories is detailed in Note 19.E to the accompanying financial statements.

Operating risk

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

Operating failure events which occurred at financial institutions over the past 15 years have increased legislator awareness and that of financial institutions to operating failure events and their main attributes, including:

a. Operating events may occur throughout the organization and are inherent to financial institution operations.

b. These events may result from an operating failure or may also be combined with other risk types, such as market risk, credit risk, liquidity risk, reputation risk etc.

c. A significant share of operating failures has very low probability but relatively large damage potential.

d. Operating events sometimes occur which are not under control of the financial institution, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster or security-related events.

Operating risk is inherent by its nature, and exists throughout the organization. The Bank's management and the Board of Directors attach great importance to this risk, and take an integrative approach to handling and management of operating risk, as an integral part of the overall corporate culture, by implementing this culture by means of training, dissemination of related content and application of elevated standards of operating control at all levels. The operating risk manager for the Bank is the head of its Comptrollership, Planning & Operations Division. The Bank approach is that responsibility for operating risk management lies primarily with managers and staff of the different lines of business. The Bank has decided to combine application of the Supervisor of Banks' directives, based on Sections 302 and 404 of the US Sarbanes-Oxley Act (SOX) (internal controls over financial reporting) with handling of operating risk, under responsibility of the Risk Control Department.

The Bank's policy with regard to operating risk states that this is a process which requires creation of an appropriate, enterprise-wide corporate culture in order to handle it. The policy addressees how risk is managed and regularly reviewed at the Bank via committees and forums, such as the Management Committee on this subject, tasked with development of plans, processes and procedures for risk management in all material products, activities, processes and systems of the Bank. The Stress Scenario Forum at the Bank is tasked with specifying stress scenarios at different severity levels, in order to quickly identify events and malfunctions, and handle them so as to reduce their frequency and severity of the damage they cause. The Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operating risk. Risk management is also achieved by means of the Internal Control Trustees Forum (part of the Operating Risk Portal system), and by the forum headed by the different division managers at the Bank, which are intended as intra-division forums for handling operating risk at division level. Operating risk is also managed by means of the Internal Control Forum, established in order to integrate multiple central control entities, including the Compliance, Operating Risk, Process Engineering and Internal Audit units.

Another layer in the area of operating risk is that of internal audit, which acts independently. The operating risk policy addresses the role of Internal Audit as the entity in charge of carrying out periodic audits of risk management processes, taking part in methodologies for capital calculation with respect to risk, involvement with fraud and embezzlement issues, data gathering, documentation, debriefing and reporting of events, participation as observer on committees and involvement with the Internal Control Forum. The policy also addresses the roles of different professional units and of branches.

In recent years, the Bank has prepared to put in place comprehensive infrastructure of processes and methods for handling operating risk. These preparations include, *inter alia*, the following:

- Deployment of a corporate culture, as determined by the Board of Directors and by Bank management, by means of training and instilling a supportive corporate culture throughout the organization.
- Creation of an appropriate organizational structure in the Risk Control Department, which includes the Operating Risk Unit.
- Appointment of internal control trustees in branches and headquarters units.
- Assignment of a dedicated representative of the department in the trading room.
- Conducting risk surveys and establishing work plans to handle those risk factors identified.
- Quantitative data gathering and analysis with respect to actual monetary losses.
- Creation of an enterprise portal for management and handling of operating risk and SOX (the Operating Risk Portal system).

In 2007, the Bank conducted operating surveys to map these risk elements for most Bank departments. These reviews are one of the major tools used in identifying operating risk in order to mitigate it. In 2009, the process of introduction of survey results into the liquidity risk management portal was completed. The findings of these operating risk reviews, as well as reports of relevant events, are discussed by the Steering Committee on Operating Risk, headed by the Operating Risk Manager. The Bank is taking action to eliminate gaps as they are identified, and to improve control in order to ensure minimized operating risk. This is based on priorities derived from the risk severity and probability, and based on decisions by the Steering Committee. The Operating Risk Department closely monitors progress made on required improvements and reports to the Steering Committee. In 2010, the Bank plans another round of surveys to be integrated with process mapping and control review as part of application of provisions of the Sarbanes-Oxley Act (SOX).

As part of preparations for handling operating risk and for application of the Basle directives on this issue, the Risk Control Department gathers and identifies operating risk and loss / near loss events from all Bank units. In 2008-2009, the Risk Control Department operated the Operating Risk Management Portal at the Bank, used as a repository for managerial information and as a key tool for analysis and reporting of the level of operating risk at the Bank's business units.

The risk monitoring process at the Bank includes reporting of internal financial data, operating data, regulatory compliance data and external data with regard to events and conditions relevant to operating risk. These reports include regular reports made by the business units to the Risk Control Department, and integrated reporting routines to the Bank's management and to the Board of Directors.

Operating risk mitigation

Due to the significance of operating risk, the Bank takes different steps to mitigate this risk. The most important step is to instill a corporate culture which promotes strong awareness of operating risk, and of deployment of risk-mitigating processes, as well as to implement operating procedures with regard to risk control and to deliver training to Bank employees.

The Bank has established a policy and operating plans for case of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure.

Mitigating operating risk via insurance - the Bank is insured under a banking insurance policy, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank has also obtained an officers' insurance policy, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability.

Information security

In accordance with Proper Conduct of Banking Businesses Regulation 357, the Bank appointed a Data Security Director, who reports to the Director of the Controllership, Planning and Operations Division. The data security unit, headed by the Data Security Director, is responsible for prescribing the Bank's data security policy, for developing data security software, and to follow-up its implementation in the Bank, examining the effectiveness of the data security system and dealing with exceptional data security events. Information security policy at the Bank is implemented, inter alia, by the Information Security Department of Mehish Computer Services Ltd., a wholly-owned subsidiary of the Bank.

See also under chapter on IT above.

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Notes 3 and 6.A. The investment balance includes investment in negotiable and public shares amounting to NIS 7 million, and investment in non-public shares amounting to NIS 91 million.

Total investment 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.

	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 Basel II, Pillar 3.

Legal risk

Proper Conduct of Banking Businesses Regulation 339 prescribes, inter alia, that banking corporations must take action to reduce the legal risk resulting from their various operations. According to the regulation, the legal risk is "the risk of a loss resulting from not having the possibility of legally enforcing an agreement".

Within the scope of the Bank's preparations to manage legal risk and comply with the regulation, the Chief Legal Counsel was appointed as Legal Risk Manager, with the function of managing this risk and taking action to reduce them. As part of the risk management plan, the Bank analyzed the elements of the legal risk in its operations (such as: absence/existence of an agreement and possibility of its enforcement), the ranges of risk (type of agreement, identification of the other party, creation of security, etc.) and the specific risk characteristics of the different risk ranges, while examining the level of risk and exposure.

The Bank prescribed procedures that assist in mitigating legal risk in operations and in the different units of the Bank. The procedures prescribe, inter alia, the interfaces between the legal counsel system of the Bank and its various units; specify the kinds of agreements that the Bank is permitted to sign and the procedures for their drafting; determining the manner in which the other side to an agreement is evaluated, including his authority to act on behalf whoever is acting on behalf of others; and define the manner in which the collateral is to be obtained and recorded. Also specified was the share of the legal system in preparation of the Bank's internal procedures and in preparing the resultant documents and forms.

The legal system of the Bank regularly monitors developments in legislation, regulation and rulings, which could have implications for the day-to-day activities of the Bank's units. The Bank acts to mitigate the risk based on these developments and according to their implications. Likewise, the legal system prepares, as needed, the updates needed in uniform agreements used by the Bank, for all the framework agreements to which the Bank is a party and in legal opinions that constitute a basis for the undertakings.

The Bank's IT systems support the management of legal risk, inter alia, through the production of computerized standard legal documents and following-up on the receipt of collateral. Likewise, the Bank uses specialized IT systems to monitor the statutory registration of certain collateral.

The principles of procedures binding on Bank departments in Israel with regard to legal engagements, are also binding on Bank branches overseas, with these branches making use of services of local external attorneys vetted by the Legal department in Israel. In addition, the Bank set specific guidelines for each branch which are in line with the unique terms and risk facing that branch.

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 clients, by virtue of the regulations applicable to a banking corporation.

Proper Conduct of Banking Business Regulations No. 308 requires banking corporations to appoint a Compliance Officer as part of actions taken by them to comply with consumer directives which apply to bank relationships with its clients and to compliance with provisions of the Money Laundering Prohibition Act, and as part of risk management by the Bank. This is done in order to reduce the probability of violation of laws and regulations and lead to early discovery of such violations, and to reduce the Bank's exposure to claims, damage to its reputation and damages that it could sustain as a result of these.

The Bank operates a Compliance Unit, headed by the Compliance Officer, who is also responsible for application of the Prohibition on Money Laundering Act, 2000 and the Prohibition on Financing Terrorism Act, 2005.

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	Low
Interest risk	Low
Inflation risk	Low
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Low
Operating risk	Low
Legal risk	Low
Reputation Risk (1)	Low

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

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

Market risk

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

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

Other risk

The degree of influence of credit risk, liquidity risk, operational risk, legal risk and goodwill risk – were determined based on management's assessments, as performed from time to time.

Management's assessments were made, inter alia, based on the assumption that credit risk and operational risk are always considered more significant than market risk, from a statistical standpoint.

Social involvement and charitable donations

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement and to support all facets of the community's needs. The Bank's Executive Management believes that giving of itself in this manner, not only contributes to the community, but expresses the spirit and character of the Bank, contributes to creating an atmosphere of commitment, "pride in the unit" and identification among the workers and managers, and eventually also makes its mark on the business accomplishments.

The Bank emphasizes a focused social area "Advancing and Nurturing Disadvantaged Children and Youth in Crisis" and has channeled to it most of the charitable donations and volunteer activities of the Bank and its employees. The Bank is working to realize social policy in a manner that expresses its strength, involves the Bank's employees in active volunteerism and leverages its physical, financial and human abilities and resources by means of "Mizrahi-Tefahot in the Community". This social brand is intended to differentiate the social activities of the Bank and to create identification among the Bank's employees and managers. The focused communal activities are carried out with the maximum collaboration of its employees and managers, geographic diffusion and diversification of activities, while utilizing the Bank's diversification, the existence of extensive partnerships with communal organizations throughout the country, and intensified intra-organizational and extra-organizational community involvement.

Along with focusing on a specific social area, an integrated, continuous process was launched, aimed at including all Bank employees in community activities initiated by the Bank. In the spirit of the values of the Bank's brand – initiative, reciprocity and extra – the employees were called upon to be partners in the community projects supported by the Bank. Consequently, contributions to the community became a central and important goal on the agenda of the Bank's employees, while management is providing incentives and encouragement to employees to take part in these activities, and the results are already evident in the field and in employee response.

As part of the Bank's community program, activities are conducted at every location where the Bank has a business presence, while maintaining a broad partnership with local social and communal organizations.

More than 110 of the Bank's branches have forged ties with different social organizations and institutions working on behalf of disadvantaged children and youth at risk, in communities in which branches are located. “Adoption” of these organizations is reflected by volunteer work by branch and headquarters staff, assistance and mentoring while providing assistance to the populations they treat, and providing financial assistance – Bank donations for purchase of products to benefit the children and youth.
The range of "Mizrahi Tefahot in the Community" activities includes projects on Jewish holidays and assistance provided to underprivileged populations routinely, as well as in times of crisis.

As part of Bank activities, an educational package "Financial" was prepared, to train youth in financial areas and is moderated by employees of the Bank who volunteer in schools and social organizations. In 2009, the "Financial" package was translated into Sign Language, in order to make it accessible to the deaf and hearing-impaired community in Israel, for which the Bank was awarded first prize in the Israeli Management Center's human resources competition, for promoting social agendas. The Bank has also put in place an extensive support program for the Ethiopian immigrant community in Sderot, which is carried out together with local community organizations; has produced a new, updated version of the unique informational guide "Added Value", covering social and environmental products produced by community organizations and people with special needs, or by organizations which promote and distribute green products which help in protecting the environment, in order to help these organizations in gaining exposure and sales of their products. The bank is promoting an organizational culture which encourages purchasing of gift items from the “Added Value” catalog for various Bank-managed events.

In order to expand the range of partners in these activities as much as possible, the Bank initiates projects to add additional stakeholders - employees and their families – via projects like “Children for Children” and “Tour de TROM”; clients – continuation of a project to include Bank clients in the designation of charitable donations to social organizations focused on helping children and youth, to whom the Bank provides support for social ventures. This year, the charitable donation was provided to six selected non-profit organizations, as part of the project aimed at including Bank clients in community involvement, in a ceremony attended by the Bank President.
The activities of **"Mizrahi-Tefahot in the Community"** are succeeding in significantly advancing many social segments and areas, while enabling the Bank's employees a broad cushion for self expression and emotional empowerment.

In 2009, the activity in the field was expanded significantly, by branches and Head Office units that have not yet forged ties with suitable organizations in the community, and activities with organizations already adopted by the Bank were intensified.
Several new ventures were carried out in cooperation with different social organizations, such as the Passover Walk with: The Israel Cancer Society, the Adopt-a-Class project with ETGARIM and continuation of the "I Can Too" project in cooperation with the Ministry of Education, in which students assist in providing technological solutions for various disabilities.

In 2009, the Bank Group allocated NIS 3.2 million to community involvement and charitable donations, similar to 2008.
In addition, Bank employees and managers invested in 2009 over 26,000 hours in community work on different projects.

Disclosure concerning the Internal Auditor

Details of the Internal Auditor

Below is information on the Chief Internal Auditor of the Mizrahi Bank Group:

Name	Haim Git
Start of term in office	February 1999
Education	Certified Public Accountant; BA in Accounting (Tel-Aviv University), Accountancy Certificate (Hebrew University)
Experience	Chief Internal Auditor – responsible for auditing with the Supervisor of the Banks at the Bank of Israel. Deputy Chief Internal Auditor in Mizrahi Bank.

Pursuant to provisions of Section 146(B) of the Corporations Act, 1999 - the Internal Auditor is not an interested party of the corporation, an officer or relative there of.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to his position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Bank Yahav (starting in August 2008) and Auditor of Bank Mizrahi-Tefahot subsidiaries. Furthermore, the Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with his position as Internal Auditor.

Pursuant to Section 8 of Banking Regulations (Internal Audit), 1992 audit staff is only appointed with consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal audit staff do not hold other positions with the banking corporation in addition to internal audit, other than as Ombudsman. Internal audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal audit employees are terminated with due process and consent of the Internal Auditor.

On May 11, 2009, the Internal Auditor exercised 26,000 options allotted to him on July 19, 2005 under the stock option plan for Mizrahi-Tefahot employees, into Bank Mizrahi-Tefahot ordinary shares of NIS 0.1 par value each, and sold the allotted shares on the same day. As of December 31, 2009, the Internal Auditor is entitled to 210,944 options for buying Mizrahi-Tefahot shares, allotted on July 8, 2008, under the stock option plan approved by the Bank Board of Directors on May 19, 2008. On November 9, 2009, the Bank Board of Directors approved the allotment of 259,000 additional options to the Internal Auditor in conjunction with an additional allotment to other Bank officers.

See Note 16.A to the financial statements for details.

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

The Internal Auditor is a full-time employee of the Bank.

Appointment

In February 1999, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

Identity of the Internal Auditor’s Supervisor

The official in the organization responsible for the Internal Auditor is the Chairman of the Board of Directors.

Internal Audit work plan

Internal Audit work is based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan is derived.

Considerations in determining the multi-annual audit plan

- Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency in line with the risk (relating separately to audit frequency at branches, headquarter departments and subsidiaries).
- Surveys of risk centers for embezzlement and fraud carried out in the Bank.
- Survey of risk of the IT system performed by the auditing group.
- Findings of the last survey of controls in the supplementary detailed report of the independent auditor.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the auditing group.
- Decisions of the audit committee and requests of the Bank’s President.

The multi-annual work plan is prepared by the Internal Auditor and brought up for discussion by the Board of Directors’ Audit Committee. Concurrently, the plan is submitted to the President. After the Board’s Audit Committee recommends approval of the plan, the plan is submitted for approval by the Chairman of the Board of Directors.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of the Internal Audit by request of the Audit Committee and the President.

Changes to the work plan are made by the Internal Auditor as needed, in coordination with the Chairman of the Audit Committee and/or the Board of Directors’ Audit Committee.

Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board’s Audit Committee. Concurrently, the plan is submitted to the President. After the Board’s Audit Committee recommends approval of the plan, the plan is submitted for approval by the Chairman of the Board of Directors.

As for review of material transactions during the reported period by the Internal Auditor, note that the Internal Auditor has not reviewed the Bank Adanim merger.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during his tenure as their internal auditor, except for Bank Mizrahi Switzerland, which had its own internal auditor during the reported period. With respect to this company, the Internal Auditor verifies on a regular basis that there is proper internal auditing as required by the banking regulations.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions for employees reporting to the Internal Auditor in 2009, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
(1) 43	6	(2) 1.5

(1) Includes 4 full-time positions for audit at Bank Yahav. In addition, the Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 2.5 full time positions.

(2) Includes use of external resources at Mizrahi Switzerland and at the Los Angeles branch.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of the Banks.
- Standards for Professional Engagement in Internal Audit of the Institute of Internal Auditors in Israel.

  The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit.

Access to information

The Internal Auditor received complete access to all the information he needed, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits of subsidiaries and overseas operations, auditors are also given full access as stated above.

Submitting report on Auditor's findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the President and head of the internal audit unit. Audit reports are submitted in writing. The Auditor submits to members of the Audit Committee the list of all reports submitted during the quarter. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The significant reports, at the request of the President or the Chief Internal Auditor, are discussed in a forum headed by the President or the Bank's Executive Management. The chairman of the Audit Committee sits, in consultation with the Internal Auditor, and after the Chairman of the Board is informed, determines which internal audit reports are significant, to be brought for discussion before the Audit Committee.

In accordance with Section 6(B)(2) of the Banking Rules (Internal Audit), 1992, a semi-annual list was distributed on August 4, 2009, within the framework of the report on performance of the work plan for the audit for the first half of 2009. The report was presented at the Audit Committee meeting held on August 10, 2009. The annual summary report of Internal Audit in 2009 was distributed on February 25, 2010 and was discussed at the Audit Committee meeting held on March 8, 2010. Other major reports were discussed during the year at monthly meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are meant to realize the objectives of internal auditing.

Remuneration of the Internal Auditor

For details of remuneration and payments to the Internal Auditor, see under the chapter on Remuneration of Senior Officers.

The Board of Directors believes that the size of remuneration provided to the Internal Auditor should not influence his judgment with respect to his work.

Accounting Policies on Critical Matters

The consolidated financial statements of the Group are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with the directives and guidelines of the Supervisor of the Banks on the preparation of the financial statements of a banking entity. The significant accounting policies are detailed in Note 1 to the financial statements.

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

Provided below are accounting policies on critical matters:

The specific provision for doubtful debts, except on housing loans, is based on a specific evaluation of the quality of the loans, while relating to a range of factors having influence, and also through an automatic mechanism that scans the Bank’s credit portfolio and indicates problem loans according to set parameters, for the purpose of a specific examination. The problem loans were classified and the provisions determined according to a ranking of authorities of various managers in the Group, based on the following criteria: the risk related to the loan portfolio, the scope and quality of information on the borrower held by management, his business activities, how he has fulfilled his obligations and the value of the collateral that he furnished. The actual losses could turn out to be different than the specific provisions made.

On December 31, 2007, the Supervisor of Banks issued a circular on “Measuring and Disclosure of Impaired Debt, Credit Risk and Provision for Credit Loss”. According to the circular dated February 18, 2010, the Bank will implement, as of January 1, 2011, new directives with regard to impaired debts. Implementation of this directive would cause a change in estimate and recording of specific provision for doubtful debts. For further information on the new directives, see Note 1.X. to the financial statements.

The provision for doubtful debts by extent of arrears, which is calculated for housing loans in accordance with the guidelines of the Supervisor of Banks, whereby provision coefficients are determined based on extent of arrears in loan repayment. The length of the arrears in repayment of a loan is an objective element of data, although the provision coefficients are prescribed by the Supervisor of Banks. A change in the coefficients or allocating them to other lengths of arrears, could cause a change in the amount of the provision for doubtful accounts. Likewise, actual loss may differ from the provision made based on the extent of arrears. If needed, a specific provision is made with respect to housing loans, over and above the minimum required by extent of arrears. This provision would remain in place even after the effective start date of the new directives with regard to impaired debt, as mentioned above.

The supplementary provision for doubtful debts is calculated in accordance with a formula prescribed by the Supervisor of Banks, and according to the classifications of problem loans that were determined at the discretion of the various managers, based on procedures prescribed on the matter, and additional principles that were prescribed in the Proper Banking Conduct Regulations. A change in the method of classifying debts and modifying the coefficients could cause a change in the level of the required provision. Note that the supplementary provision is not tax deductible, and according to directives of the Supervisor of the Banks, the Bank may not create deferred taxes for them so that its effect on net profit is in the full amount of the provision.

For details of the balance and movement of the provision for doubtful debts in 2009, see Note 4.C. to the financial statements. Upon the effective start date of the new directive with regard to impaired debt, on January 1, 2011, the general and supplementary provisions for doubtful debts would be cancelled.

Financial derivatives are treated and presented in accordance with the public reporting guidelines of the Supervisor of the Banks, which are based on the American Standards FAS 133, FAS 149 and FAS 155. According to the guidelines, all derivatives are stated in the balance sheet at fair value. The fair value of the derivatives is determined according to quoted market prices in active markets, or according to acceptable economic models, which include assumptions and variables that are evaluated regularly to adapt them to current market conditions. In accordance with directives of the Supervisor of the Banks, the Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms. A change in the economic assumptions and variables will lead to a change in the fair value of the derivatives.

Securities in the portfolio held for trading and in the portfolio of available for sale securities are stated at fair value, in accordance with the public reporting guidelines of the Supervisor of the Banks. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. As stated above, in accordance with directives of the Supervisor of the Banks, the Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms. The fair value calculation was validated by the Bank's Risk Control Department, which does not participate in the fair value calculation process, assisted by an external professional consultant specialized in models for calculating fair value of financial instruments. Validation is conducted by reviewing the model assumptions and parameters; reviewing the model methodology and its application; and independently reviewing the model in comparison with other models, in as much as possible.

Below is the fair value of financial assets and liabilities reported in the financial statements at fair value, with a distinction between assets and liabilities whose fair value is determined by a price quote on an active market, and those whose fair value is determined using other methods, as of December 31, 2009:

	Fair value determined by price quote on active market	Other	Total
Securities:			
Debentures available for sale	6,802	498	7,300
Stocks available for sale	7	79	86
Debentures held for trade	257	-	257
Total securities	7,066	577	7,643
Derivatives:			
Derivatives with positive fair value balance (assets)	1,481	11	1,492
Derivatives with negative fair value balance (liabilities)	1,991	7	1,998
Total derivatives	(510)	4	(506)
Total	6,556	581	7,137

Liabilities for employee rights are calculated according to actuarial models, based on the discount rates prescribed by the Supervisor of the Banks. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights. Pursuant to the Supervisor of the Banks' directive, the discount rate used in actuarial calculation for retired employees choosing a pension is 4%. For each .25% increase / decrease in the discount rate, the actuarial liability would decrease / increase by NIS 5 million.

The financial statements include the benefit value of the stock option plan for Bank managers, estimated using the Black & Scholes model based on various assumptions, mainly with regard to the expected exercise date of the options and the standard deviation of the Bank's share price. Changes in the price of the Bank's shares, the standard deviation for the Bank's share and other factors could affect the economic value of the benefit.

The benefit value in the Bank's accounts is allocated over the term in which the Bank's management assumed the options would be granted. See Notes 1.N and 16.A to the financial statements for details.

The provisions for legal claims are determined according to management's assessments, based on the opinions of legal counsel. Among the legal claims are also motions for class actions. A provision was made for claims from which, in the opinion of management, a loss is expected, and is based on estimates of the loss, using information in the hands of management of the companies in the Group. No provision is recorded in the financial statements for claims as to which sustaining a loss is unlikely, or the prospects of a loss are remote.

Actual outcomes of these lawsuits may differ from the aforementioned management estimates, used for making the provisions for loss and their impact on financial statements may be material.

A provision for impairment of non-financial assets is made in accordance with Accounting Standard No. 15 “Impairment of Assets”.The provision for impairment, if needed, is based on assessor valuations updated by the assessor as required.

Deferred taxes are calculated for temporary differences between revenues and expenses included on the financial statements and amounts accounted for tax purposes. In cases where the revenue or expense recognition date for tax purposes is later than the date of recording the revenue or expense in the Bank's accounts, the deferred tax balances are calculated using the expected tax rates upon recognition of the expense or revenue for tax purposes, as they are known soon prior to the approval date of the financial statements.
Deferred tax benefits are recorded for temporary differences expected to generate a tax benefit on the date of reversal. As stated in Note 28 to the financial statements, the Bank’s balance sheet as of December 31, 2009 included net deferred taxes amounting to NIS 354 million. An increase of 1% in tax rates would cause a decrease of NIS 10 million in the provision for taxes.

Critical estimates

Other than temporary impairment of investments in securities

The financial statements as of December 31, 2009 include critical estimates with regard to other-then-temporary impairment of several investments in securities, with a total original investment cost of $119 million (NIS 449 million). For the purpose of estimating the aforementioned impairment, the fair value of these investments was calculated using an internal model based on a methodology for assessment of the quality of collateralized debts, as well as on objective data, if available. In accordance with directives of the Supervisor of the Banks, the fair value calculation is validated by an independent professional appointed for this purpose by the Bank. It is assumed that impairment compared to deviation of the original investment is not of a temporary nature, primarily in view of the significant decrease, the duration over which the quoted value has not increased, and the erosion of the investments' safety cushions. The value of these investments in financial statements as of December 31, 2009 is $21 million (NIS 81 million).
The actual value of these investments may turn out in the future to be materially different from the aforementioned estimate. The extent of the impact on future financial statements may range from recording a further loss amounting to $21 million (NIS 81 million), should it emerge that the investment value continued to decline, to recording a further gain amounting to $98 million (NIS 368 million) should it turn out that the full impairment was temporary.

The provision for a retirement agreement

The 2009 financial statements include a provision for a voluntary retirement program, amounting to NIS 170 million. The amount of this provision is based on the Bank management's estimate of the number of employees expected to retire under this program, after due consideration to composition of the Bank's employee population, employee quality, age and past experience with taking voluntary retirement. The provision amount is based on the expected number of retirees, as stated above, and on past experience with regard to employee retirement cost, with distinction between different retirement tracks (pension or severance). The actual cost of employee retirement may differ from the provision made, should it turn out that the number of employees who retire under this program differs from the anticipated number, and should it turn out that the average retirement cost per employee differs from assumptions used in making the provision.

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 listed in the Board of Directors' report below. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as described below.

The Bank's financial statements are prepared by a professional department, headed by the Chief Accountant, pursuant to directives and guidance from the Supervisor of the Banks and in accordance with the disclosure policy set by the Bank's Board of Directors.

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation or lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal controls over financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of the Bank's executives, see the chapter on Bank Management below. 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 policy, requests or demands by regulatory authorities and issues on which Bank management and the independent auditors differ. As part of presentation of these issues to the Disclosure Committee, the independent auditors' professional comments are also presented.

In order to improve efficiency of supervision and control of disclosure in financial statements, the Bank's Board of Directors has established the Board Balance Sheet Committee, a restricted committee with 5 Board members, which is tasked with discussion and deliberation of proper disclosure in financial statements and with review of the financial statements in their entirety before they are submitted for discussion and approval by the Board of Directors plenum. For details of the committee members and their accounting and financial skills, see the Board of Directors' report below. Meetings of the balance sheet committee are also attended by the Chief Accountant and the by the independent auditors.

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, related 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 the 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 auditors are also presented to the Board Audit Committee. These discussions are also attended by the Internal Auditor and the independent auditors. Any report of significant faults is also presented to the Board of Directors.

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 at the Board of Directors, the Chief Accountant presents the financial results and an analysis of them, 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.

Independent Auditors' report

The Independent Auditors' drew attention in the Auditors' Opinion to the following:
See Note 19.D.12-14 to the financial statements regarding claims filed against the Bank and motions for their recognition as class actions including in the matter of insurance.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of the Banks, based on the US 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 the Banks has been applied to financial statements starting on June 30, 2005.
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 certification also refers to setting of internal controls over financial reporting 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 the Banks.

At the end of the period covered by this Report, the Bank's management, together with the President 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 annual report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

During the quarter ended December 31, 2009, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.
In accordance with the directive by the Supervisor of the Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, starting with financial statements as of December 31, 2008, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

The Code of Ethics

On November 24, 2008 the Bank Board of Directors approved the values of the Code of Ethics which is binding on the organization as a whole and on each employee and manger individually.

Quote from the Code of Ethics:

"We at Mizrahi-Tefahot commit to maintain all of our relationships: With clients, co-workers and the organization itself, on the basis of moral and humanitarian values accepted in proper society. Reliability, loyalty and safeguarding of human dignity shall endow all our contacts with our environment, based on a world perception which determines that personal and professional relationships would only be sustainable if it is based on a moral foundation of the highest degree. We shall execute the tasks assigned to us out of commitment to our clients and their business along with commitment to the Bank and its objectives, and shall constantly strive for excellence. We shall conduct all our activities with professional integrity, fairness and transparency."

In 2009, the Bank completed deployment of the Code of Ethics to all Bank employees and managers, and published the Code of Ethics on the Bank's website. An Ethics Committee was established at the Bank, which includes representatives of Bank branches and headquarters, in order to actually implement the values embedded in the Code of Ethics, and to provide responses to ethical issues. Furthermore, a dedicated Ethics Portal was created on the Bank's intranet website.

Executive Management

Bank's Executive Management team:		
Eliezer Yones	President	
Menahem Aviv	Vice-President	Manager, Accounting & Financial Reporting Sector and Chief Accountant
Israel Engel	Vice-President	Manager, Retail Division
Na'ama Gat	Vice-President	Manager, Marketing, Promotion and Business Development
Uziel Danino (1)	Vice-President	Manager, Client Assets Division
Moshe Lari (2)	Vice-President	Manager, Controllership, Planning and Operations Division and Chief Risk Officer (CRO)
Eldad Fresher	Vice-President	Manager, Financial Division and Chief Financial Officer (CFO)
Sammy Keinan	Vice-President	Manager, Information Technology
Doron Klauzner (3)	Vice-President	Manager, Business Division
Rita Rubinstein	Vice-President	Manager, Human Resources and Administration Division
Haim Git		Chief Internal Auditor
Dr. Shimon Weiss		Chief Legal Counsel
Maya Feller		Corporate Secretary
Benny Shoukroun		Bank Spokesman

(1) On January 18, 2010, the Bank's Board of Directors approved appointment of Mr. Uziel Danino as Manager, Client Assets Division - effective from January 18, 2010.

(2) On September 7, 2009, the Bank's Board of Directors confirmed appointment of Mr. Ofer Argov as Manager, Comptrollership, Planning and Operations Division and Operating Risk Manager - effetive from November 8, 2009.

(3) On September 7, 2009, the Bank's Board of Directors confirmed appointment of Mr. Doron Klauzner as Manager, Business Division and Credit Risk Manager - effective from November 8, 2009.

Senior Officers

Below are details of senior officers who are not members of the Bank's Board of Directors:

Eliezer Yones	
Start of term in office	April 1, 2004
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	President
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Economics and Sociology – Hebrew University, Jerusalem; MA in Business Administration - Hebrew University, Jerusalem
Business experience (in past 5 years)	President of Bank Mizrahi-Tefahot Ltd.

Menahem Aviv	
Start of term in office	April 13, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Accounting & Financial Reporting Sector and Chief Accountant
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Tel Aviv University; MBA – Tel Aviv University; CPA
Business experience (in past 5 years)	Manager, Accounting and Financial Reporting Division – Bank Mizrahi-Tefahot Ltd.

Israel Engel	
Start of term in office	January 1, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Retail Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Bar Ilan University; MBA (Finance) – Bar Ilan University; CPA
Business experience (in past 5 years)	Manager, Retail Division - Bank Mizrahi-Tefahot Ltd.

Senior Officers (continued)

Haim Git	
Start of term in office	February 1, 1999
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor Manager, Internal Audit Department
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting – Tel Aviv University; Accounting Diploma – Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Chief Internal Auditor, Bank Mizrahi-Tefahot Ltd.

Na'ama Gat	
Start of term in office	October 10, 2004
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Promotion and Business Development
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Psychology and English Literature – Haifa University; MA in Advertising and Marketing – Marquette University, Milwaukee, USA
Business experience (in past 5 years)	Manager, Marketing, Advertising and Business Development - Bank Mizrahi-Tefahot Ltd.

Uziel Danino	
Start of term in office	January 18, 2010
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Client Assets Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in business administration - Israel College Graduate degree in business administration - Derby University Extension
Business experience (in past 5 years)	Manager, Central Region at Bank Mizrahi-Tefahot Ltd.; Deputy Manager, Business Division at Bank Mizrahi-Tefahot Ltd.

Senior Officers (continued)

Shimon Weiss	
Start of term in office	October 2, 1999
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel Legal risk manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	LL.B. – Hebrew University, Jerusalem; LL.M. – Hebrew University, Jerusalem; Dr. Jur. – Hebrew University, Jerusalem; MBA – Tel Aviv University
Business experience (in past 5 years)	Chief Legal Counsel, Bank Mizrahi-Tefahot Ltd.

Moshe Lari	
Start of term in office	November 8, 2009
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Controllership, Planning and Operations Division Manager and Operational Risks Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting - Hebrew University, Jerusalem; Graduate degree in Business Administration - Tel Aviv University
Business experience (in past 5 years)	Manager, Planning and Economics Division at Bank Mizrahi-Tefahot Ltd.

Dov Fogel	
Start of term in office	May 18, 1997
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Logistics, Administration and Efficiency Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Business Administration - New England College; MBA, specialization in Strategic Management - Hebrew University, Jerusalem
Business experience (in past 5 years)	Manager, Logistics, Administration and Efficiency Division at Bank Mizrahi-Tefahot Ltd.

Senior Officers (continued)

Maya Feller	
Start of term in office	April 20, 1997
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Corporate Secretary
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Humanities – Tel Aviv University
Business experience (in past 5 years)	Secretary, Bank Mizrahi-Tefahot Ltd.

Eldad Fresher	
Start of term in office	November 3, 2004
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Finance Division – CFO and Market Risk Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Business Administration – Hebrew University, Jerusalem; MBA – Hebrew University, Jerusalem
Business experience (in past 5 years)	Manager, Financial Division - CFO and Market Risk Manager at Bank Mizrahi-Tefahot Ltd.

Sammy Keinan	
Start of term in office	November 1, 2007
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Information Technology
Family member of another senior officer or of an interested party in the banking corporation	No
Education	B.Sc. In Industrial Engineering and Management – Technion; Partial studies for BA in Computer Science – Bar Ilan University
Business experience (in past 5 years)	IT Manager at Partner, CEO of Mehish Computer Services Ltd., Manager, Client Assets and Advisory Division at Bank Mizrahi-Tefahot Ltd.

Senior Officers (continued)

Doron Klauzner	
Start of term in office	November 8, 2009
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Corporate Banking Division and Credit Risk Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration - Bar Ilan University
Business experience (in past 5 years)	Manager, Human Resources, Logistics and Procurement Division at Bank HaPoalim Ltd.; Manager, Risk and Strategy Division, Bank HaPoalim Ltd.; Manager, Strategic Management Center, Bank HaPoalim Ltd.

Rita Rubinstein	
Start of term in office	January 1, 2007
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Resources and Administration Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Humanities and Social Sciences – Hebrew University, Jerusalem; MA in Humanities and Social Sciences, Bar Ilan University
Business experience (in past 5 years)	Executive VP at Paradigm Corp.

Details of remuneration (1) of senior officers

(NIS in thousands)

												All of 2009
Details of remunerated party				Remuneration for services rendered (2)				Other remuneration	Total	Loans granted at beneficial terms (3)		Loans granted at standard terms
Name	Position	Extent of employment	Holding stake in Bank equity	Salary	Bonuses (15)	Social benefit contributions (4)	Share-based payment (5)	Value of additional benefits		Balance as of December 31, 2009	Average term to repayment (in years)	
Jacob Perry (7)	Chairman of the Board of Directors	60%	-	1,278	800	67	-	130	2,275	59	-	144
Eliezer Yones (8)	President	100%	0.65%	2,691		270	*15,512	152-	18,625	-	-	113
Israel Engel (9)	Deputy President and Manager, Retail Division	100%		921		396	1,166	107	2,590	129	1.0	45
Eldad Presher (10)	Deputy President and Manager, Financial Division	100%		916		350	1,166	62	2,494	-	-	83
Na'ama Gat (12)	Deputy President and Manager, Marketing, Promotion and Business Development	100%	-	914	-	280	1,166	85	2,445	-	-	23
Yekutiel Mansdorf (13)	President of subsidiary - United Mizrahi Bank (Switzerland) Ltd.	100%	-	1,048	367	1,138	258	25	2,837	60	3.0	17
Haim Git (14)	Chief Internal Auditor	100%-		956	230	345	291	108	1,930	206	0.4	19

* Includes non-linear accounting of stock option plan for the President, approved on November 30, 2008, over a term of 5 years and 4 months. The options would be granted to the President in five lots, on April 1 of each year between 2010-2014. The plan is accounted for as follows:
NIS 1.2 million in 2008, NIS 14.3 million in 2009, NIS 10.4 million in 2010, NIS 6.4 million in 2011, NIS 3.9 million in 2012, NIS 1.9 million in 2013 and NIS .5 million in 2014. See Note 16.A.1 to the financial statements for details.
This item also includes NIS 1.2 million with respect to the stock option plan for the President, approved on October 25, 2004.

Details of remuneration [1] of senior officers (continued)

(NIS in thousands)

												All of 2008
Details of remunerated party				Remuneration for services rendered [2]				Other remuneration	Total	Loans granted at beneficial terms [3]		Loans granted at standard terms
Name	Position	Extent of employment	Holding stake in Bank equity	Salary	Bonuses [15]	Social benefit contributions [4]	Share-based payment [5]	Value of additional benefits		Balance as of December 31, 2009	Average term to repayment (in years)	
Jacob Perry [7]	Chairman of the Board of Directors	60%	-	1,223	-	5	-	137	1,365	-	-	-
Eliezer Yones [8]	President	100%	1.09%	2,582	-	1,044	6,019	133	9,778	-	-	68
Israel Engel [9]	Deputy President and Manager, Retail Division	100%	-	879	316	327	296	93	1,911	149	1.2	41
Eldad Presher [10]	Deputy President and Manager, Financial Division	100%	-	873	316	298	296	48	1,831	-	-	22
Shimon Gal [11]	Deputy President and Manager, Business Banking Division	100%	-	-	316	1,201	296	1	1,814	137	1.5	17
Yekutiel Mansdorf [13]	President of subsidiary - United Mizrahi Bank (Switzerland) Ltd.	100%	-	965	374	964	141	24	2,468	57	4.0	-
Haim Git [14]	Chief Internal Auditor	100%	-	919	191	175	159	96	1,540	193	1.6	34

Remarks:

(1) Remuneration is in terms of cost to the Bank and excludes payroll tax.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, pension, study fund, acclimation bonus, paid leave, benefit value and social security.

(5) For details of the share-based payment to the President and to officers, see Note 16.A.1 to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and its amount is immaterial.

(7) Mr. Jacob Perry – Chairman of the Bank Board of Directors – is employed by the Bank under an individual employment contract at 60% of a full-time job, effective since February 24, 2003 for an unspecified term. Mr. Perry's monthly salary is linked to the Consumer Price Index. Upon termination of his employment by the Bank as Chairman of the Bank Board of Directors, including by resignation, Mr. Perry shall be entitled to have the Bank release to him all amounts accumulated on his behalf in the executive pension insurance policy, except in case of termination of his employment under circumstances where, by law, severance pay may be denied to Mr. Perry, in whole or in part, in which case Mr. Perry would only be entitled to amounts accumulated in the pension insurance from his own contributions. Each of the parties to the employment contract may terminate the contract with six months' prior notice and subject to terms and conditions stipulated in the employment agreement.
As for bonuses, see details in section (15) below.

(8) For further information about employment terms of Mr. Eliezer Yones – see Note 16.E to the financial statements. As for bonuses, see details in section (15) below.

(9) Mr. Israel Engel – employed by the Bank under an individual employment contract effective since June 15, 1999 for an unspecified term. Mr. Engel's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Engel is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Engel is entitled to a retirement bonus equal to one salary for every two years of service to the Bank, up to six salaries in total, with no additional benefits whatsoever. Furthermore, Mr. Engel is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Engel shall not be eligible for a retirement bonus, acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stipulated in the agreement. Each of the parties to the employment contract may terminate the contract with three months' prior notice and subject to terms and conditions stated in the employment agreement. As for bonuses, see details in section (15) below.

(10) Mr. Eldad Presher – employed by the Bank under an individual employment contract effective since November 3, 2004 for an unspecified term. Mr. Presher's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Presher is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Presher is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Presher shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stipulated in the agreement. Each of the parties to the employment contract may terminate the contract with six months' prior notice and subject to terms and conditions stated in the employment agreement. As for bonuses, see details in section (15) below.

(11) Mr. Shimon Gal – was employed by the Bank under an individual employment contract effective since May 2, 2004 for an unspecified term. Mr. Gal's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Gal is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Gal is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Gal shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stipulated in the agreement. Each of the parties to the employment contract may terminate the contract with six months' prior notice and subject to terms and conditions stated in the employment agreement. As for bonuses for 2008, see details in section (15) below. On November 6, 2009, Mr. Gal terminated his employment at the Bank, due to his announced departure dated August 2009.

(12) Ms. Na'ama Gat – employed by the Bank under an individual employment contract effective since October 10, 2004 for an unspecified term. Ms. Gat's monthly salary is linked to the Consumer Price Index. Upon termination of her employment at the Bank, Ms. Gat is eligible to receive an acclimation bonus equal to 3 monthly salaries, with no additional benefits whatsoever. Furthermore, Ms. Gat is eligible to have the Bank, upon termination of her employment, release to her all amounts accumulated on hers behalf in the various funds. Notwithstanding the foregoing, Ms. Gat shall not be eligible for an acclimation bonus and release of amounts accumulated on her behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stipulated in the agreement.

Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions stated in the employment agreement. As for bonuses, see details in section (15) below.

(13) Mr. Yekutiel Mansdorf – employed by the Bank since July 1, 1974. Terms of his employment were set in an individual employment contract dated January 1, 1999 for an unspecified term. Starting on October 22, 2006, Mr. Mansdorf serves as the General Manager of the subsidiary, UMB Switzerland Ltd., in Switzerland and is on unpaid leave from the Bank. Should the Bank decide to terminate his employment, Mr. Mansdorf would be eligible for a retirement bonus equal to 15 monthly salaries with no additional benefits whatsoever.

Furthermore, Mr. Mansdorf would be eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Mansdorf shall not be eligible for a retirement bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stipulated in the agreement. Mr. Mansdorf's pay as General Manager of the subsidiary is determined by the Swiss subsidiary, and is denominated in Swiss Franks. In addition, Mr. Mansdorf is eligible to receive rent reimbursement for his residence in Switzerland.

As for bonuses, see details in section (15) below.

(14) Mr. Haim Git – employment terms of the Chief Internal Auditor are presented as required by the public reporting regulations. Mr. Git is employed by the Bank since August 2, 1992 and terms of his employment were set in an individual employment contract dated February 1, 1999 and approved by the Audit Committee of the Board of Directors for an unspecified term. Mr. Git's monthly salary is linked to the Consumer Price Index. Should the Bank decide to terminate his employment, Mr. Git would be eligible for a retirement bonus equal to 15 monthly salaries with no additional benefits whatsoever. Upon termination of his employment, Mr. Git is entitled to have the Bank release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Git shall not be eligible for a retirement bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as stipulated in the agreement. Each of the parties to the employment contract may terminate the contract with six months' prior notice and subject to terms and conditions stated in the employment agreement. As for bonuses, see details in section (15) below.

(15) Bonuses

1. Bonuses for 2009

1.1. Bonus for the Chairman of the Board of Directors

The Remuneration Committee, the Audit Committee and the Board of Directors discussed (on March 15, 2010, March 17, 2010 and March 21, 2010) the bonus to the Bank Chairman, Mr. Jacob Perry, and decided to approve the bonus, subject to approval by the General Meeting of Bank Shareholders.

The Remuneration Committee, Audit Committee and Board of Directors were presented with the following data when discussing payment of the bonus:

Highlights of employment terms of the Chairman, as well as bonuses paid to him for 2006 and 2007 (Note that Mr. Perry requested not to be included among bonus recipients at the Bank for 2008); data on Bank results and profitability, including the operating rate of return on equity in previous years and in 2009 (based on the Bank's results and profitability for the nine-month period ended September 30, 2009 and expected results for the full year), as well as comparison data, *inter alia*, with regard to the operating rate of return on equity and ratio of capital to risk elements for the Bank and for 4 other banks - Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Israel Discount Bank Ltd. and First International Bank of Israel Ltd., as well as data on remuneration of officers, including chairmen of the Board of Directors at banks, insurance companies and public companies in the financial sector.

Reasons given by the Audit Committee and the Board of Directors for setting the bonus and its amount indicated that the decision to approve the bonus payable to the Chairman of the Board of Dire4ctors was made in view of the Chairman's contribution to Bank achievements in 2009, based on the Bank's objective for this year. This accounts for, *inter alia*, the fact the Bank achieved or exceeded most of the objectives set for itself for 2009, despite the severe global crisis, including objectives in the mortgage business, in recruiting retail clients and in revenues, while maintaining control of its expenses.

Reasons provided by the Audit Committee and by the Board of Directors indicated that, although business results as they would be reported in the Bank's 2009 financial statements are lower than those in 2008, in view of the Bank's achievement of most of its objectives, as stated above, and considering the appreciation of the Chairman's work in office in the best interests of the Bank and its success, it would be appropriate to pay the Chairman a bonus for 2009 in the amount of NIS 800 thousand.

Reasons quoted by the Audit Committee and by the Board of Directors further noted that the Bank's achievements in 2009 laid a proper infrastructure for Bank revenues, as reflected in data to be reported for this year, even though this data eroded significantly due to the outcome of the global crisis, an increased provision for doubtful debts and unusually low interest rates set by the central bank.

The Audit Committee and the Board of Directors further noted in their reasoning that, as mentioned above, the Bank did not pay the Chairman, at the Chairman's request, a bonus for 2008. The bonus amount payable to the Chairman of the Board of Directors for 2009 was determined, *inter alia*, based on the bonus amount paid to the Chairman for 2007, which amounted to NIS 1,040 thousand. The bonus amount payable to the Chairman of the Board of Directors for 2009 is lower than the bonus amount paid to the Chairman for 2007. This is in line with business results, as they would be reported in the Bank's 2009 financial statements, which are lower than those for 2007.

After reviewing data provided to members of the Audit Committee and the Board of Directors with regard to remuneration of officers, including chairmen of banks, insurance companies and public companies in the financial sector, the Board members consider that the bonus for 2009 in the amount of NIS 800 thousand is reasonable and appropriate under the circumstances.

1.2 Bonus for the President

In the new employment agreement, effective from December 1, 2008 through April 1, 2014, the President waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement. See Note 16.E to the financial statements for details.

1.3. Bonuses to VPs

VPs at the Bank received an option allotment pursuant to the stock option plan approved in 2009. Each VP consented by choice not to be included in the bonus payment plan for Bank officers for each year between 2009-2012, and not to be included in the bonus payment plan for Bank officers for 2013, should it be approved by the Bank. For details, see Note 16.D.

1.4**. Bonus to General Manager of subsidiary**

On February 10, 2010, the Board of Directors of the subsidiary discussed the recommendation by the Chairman of the Board of the subsidiary to grant a bonus to the General Manager of the subsidiary, with attention paid to the subsidiary's profitability and contribution to Group business, and considering his compensation terms, including bonuses and options granted to him in previous years.

In view of the operating results of the subsidiary, and in particular against the backdrop of results in the private banking sector in Switzerland, but also considering the outcome of the global financial and economic crisis, the Board of Directors of the subsidiary decided to set the bonus to the General Manager at CHF 100 thousand, 5% less than for the previous year and 30% less than for the year before that.

1.5. Bonus for Chief Internal Auditor

The Remuneration Committee, Audit Committee and Board of Directors discussed (on March 15, 2010, March 17, 2010 and March 21, 2010) the bonus for the Chief Internal Auditor, Mr. Haim Git, and decided to approve the bonus.

The Remuneration Committee, Audit Committee and Board of Directors were presented with the following data when discussing payment of the bonus:

Highlights of employment terms of the Chief Internal Auditor as well as bonuses paid to him for 2007 and 2008; data on the 'sBank results and profitability, including operating rate of return on equity in previous years and in 2009 (based on the Bank's results and profitability for the nine-month period ended September 30, 2009 and expected results for the full year), as well as comparison data, *inter alia*, with regard to the operating rate of return on equity and ratio of capital to risk elements for the Bank and for 4 other banks - Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Israel Discount Bank Ltd. and First International Bank of Israel Ltd., as well as data on remuneration of officers at banks, insurance companies and public companies in the financial sector.

Reasons given by the Audit Committee and the Board of Directors for setting the bonus and its amount indicated that the decision to approve the bonus payment to the Chief Internal Auditor was made in view of the significant contribution by the Chief Internal Auditor to operation of internal audit at the Bank. Reasons provided by the Audit Committee and the Board of Directors also indicated that the Chairman of the Board of Directors considers, and the Chairman of the Audit Committee concurs, that the Chief Internal Auditor fulfilled his duties in the best manner possible, while maintaining his personal commitment, dedication, loyalty and investing significant effort in implementation of the Bank's internal audit plan for 2009.

After reviewing data provided to members of the Audit Committee and the Board of Directors with regard to remuneration of officers of banks, insurance companies and public companies in the financial sector, the Board members consider that the bonus payable to the Bank's Chief Internal Auditor for 2009 in the amount of NIS 230 thousand is reasonable and appropriate under the circumstances.

The decisions by the Audit Committee and the Board of Directors with regard to setting the bonus and its amount also stated that the Audit Committee and the Board of Directors believe that this bonus payment would not influence the Chief Internal Auditor in exercising his professional judgment.

2. Bonuses for 2008 (paid in 2009)

2.1. Bonus for Chairman of the Board of Directors

With regard to the bonus for 2008, Mr. Perry asked the Bank Board of Directors to exclude him from the Group of bonus recipients at the Bank for this year; in accordance with his request, no bonus was set for Mr. Perry for this year.

2.2. **Bonus for the President**

In accordance with his employment contract, Mr. Yones was entitled to a bonus of $200 thousand for 2008. Mr. Yones announced that he was waiving the bonus for 2008, to which he is eligible pursuant to his employment contract, as stated above.

2.3 **Bonus for officers of the Bank**

On May 19, 2008, the Bank's Board of Directors, after receiving approval of the Audit Committee, resolved to approve a framework program for bonus payment to officers of the Bank, except for Board members including the Chairman of the Board and the Bank President, for each of the years 2008-2012 (inclusive).

On March 2, 2009, the Bank's Board of Directors, after receiving approval of the Audit Committee, resolved to amend the aforementioned bonus program.

For details, see Note 16.N to the financial statements.

The Audit Committee and the Board of Directors discussed, on March 23, 2009 and on March 29, 2009 respectively, the recommendations of the President with regard to bonus payment to each of the Bank's officers.

At the aforementioned meeting, the Audit Committee resolved, based on data from the Bank's draft 2008 financial statements, that the expected net operating profit return on average shareholders' equity for the Bank in 2008 is lower than 12%. After discussing the recommendations by the Bank President, and subject to due certification of the Bank's 2008 financial statements including the aforementioned data, the Audit Committee decided to approve payment of bonuses for 2008 to officers in the amounts indicated in the table above and on dates specified below, subject to approval of the Bank's Board of Directors. The Audit Committee further decided that, subject to approval of the Bank Board of Directors, the bonus amount immediately payable shall be paid to each Bank officer as detailed in the above table soon after due certification of the Bank's 2008 financial statements. The Audit Committee also decided that in 2009, the President may decide to pay a contingent bonus (amounting to NIS 49 thousand to Mr. Engel, Mr. Presher and Mr. Gal, and to NIS 29 thousand to Mr. Git) – provided that at the President's discretion, the Bank's expected business results for 2009, as of the date of his decision, should warrant such payment. In 2009, the President decided that no additional bonus would be paid in 2009 for 2008.

The Audit Committee received information concerning wages, benefits and stock options for 2005, 2006, 2007 and 2008 as well as bonuses for 2005, 2006 and 2007 for Bank officers.

Furthermore, the Audit Committee received the outline of stock option grants to employees dated June 28, 2005 – June 26, 2006 and June 8, 2008. The Audit Committee also received the framework program for bonus payment to officers in accordance with the outline published by the Bank on June 8, 2008 as well as its amendment in the immediate report issued by the Bank on March 2, 2009. The Audit Committee also received information with regard to wages, bonuses and capital remuneration at Israeli banks, as well as information with regard to wages and bonuses paid by insurance companies in Israel as well as by other companies traded on the stock exchange (on this matter, note that due to lack of public information with regard to many of the other banks and companies, with regard both to wages and bonuses paid to some senior executives and to the ratio of wages and bonus amounts, there is a challenge in making relevant comparisons with regard to bonus payments to Bank officers). Furthermore, the Audit Committee received estimates and initial assessments of results of other banks in Israel, which indicate expected loss in the final quarter of 2008, resulting in significant deterioration in profitability of the other banks for all of 2008.

Reasons given by the Audit Committee with regard to the bonus amount and its determination, including adoption of recommendations by the President, indicate *inter alia* that the framework bonus program, as approved by the Board of Directors on May 19, 2008, stipulates that should the Bank's annual rate of return for 2008 be 12%, the Bank would be required to transfer to the pool designated for bonus payment to Bank officers, for 2008, four (4) salaries for each Bank officer. It further stipulates that should the annual rate of return for 2008 be lower than 12%, the Board of Directors shall discuss the President's recommendation with regard to the bonus amount to be paid to Bank officers for 2008, and shall decide on this matter, at its own discretion, and subject to approval of the Audit Committee.

In view of the foregoing, and since the Bank's annual rate of return for 2008 is lower than 12%, as stated above, the Audit Committee decided, based on the President's recommendation, that Bank officers should be paid a bonus amounting close to 4 salaries, but less than 4 salaries, as specified above. This accounts for the fact that the bonus is a major managerial tool used by the President.

The aforementioned decision of the Audit Committee was made in view of the Bank's business results and achievements in 2008, as reflected by anticipated 2008 data in the Bank's draft annual report as presented to the Audit Committee, and subject to the aforementioned data being included in the Bank's 2008 annual report, as duly certified. This is in particular against the backdrop of the global economic and financial crisis in general, and the state of the banking system as a whole in particular.

After reviewing the anticipated data with regard to business results of the five major banks (including the Bank) for the fourth quarter of 2008, as reflected in data reported to the public by the other four major banks and from the financial statements for the first nine months of 2008, it appears that the net operating profit rate of return at the Bank is the highest among the five major banks. Furthermore, data for the first nine months of 2008 indicates that the Bank is the most efficient of the five major banks (i.e. the ratio of operating expenses to total revenues from financing operations and operating commissions, before provision for doubtful debts, is lowest for the Bank compared to the other four major banks).

Making payment of part of the bonus contingent, as stated above, is intended as a continuing incentive to Bank officers with regard to achieving the Bank's overall objectives and total organizational profitability over a longer period. This contingency is in line with the Bank's general remuneration policy, as well as with the trend to share the Bank's long term success and achievements with the Bank's officers over time.

The Audit Committee reviewed data presented to it based on public information regarding wages and bonuses as well as stock option plans for senior executives at banks and insurance companies in Israel, as well as at other companies traded on the stock exchange. On this matter, note that due to lack of public information, at this time, regarding executive pay and bonuses for 2008 at the four major banks and at other companies, and due to lack of public information for 2007 for many of the companies with regard both to wages and bonuses paid to some executives and to the ratio of wage vs. bonus amounts paid to executives, there is a challenge in making relevant comparisons for bonus payment.

After reviewing the aforementioned information (and considering the aforementioned challenges), the members of the Audit Committee believe that the bonus amounts for Bank officers for 2008, as approved by their decision, are reasonable and appropriate under the circumstances.

The Board of Directors at its meeting on March 29, 2009 was presented with all of the data, information and documents presented to the Audit Committee, as well as with the Bank's 2008 draft financial statements.

The Board meeting at its aforementioned meeting decided to adopt the reasoning provided by the Audit Committee as stated above, and after reviewing the data, the Board members consider that the bonus amounts for Bank officers for 2008, as approved by the Audit Committee, are reasonable and appropriate under the circumstances.

2.4 Bonus to General Manager of subsidiary

On February 25, 2009, the Board of Directors of the subsidiary discussed the recommendation by the Chairman of the Board of the subsidiary to grant a bonus to the General Manager of the subsidiary, with attention paid to the subsidiary's profitability and contribution to Group business, and considering his pay terms, including bonuses and option warrants granted to him in previous years.

In view of the increase in operations and profitability of the subsidiary, and in particular against the backdrop of results in the private banking sector in Switzerland, as well as in view of the global financial and economic crisis, the Board of Directors of the subsidiary decided to set the bonus to the General Manager at CHF 105 thousand, 25% less than for the previous year.

Transactions with controlling shareholders

On August 6, 2008, the amendment to Securities Regulations (Periodic and Immediate Reports), 1970 became effective ("the Amendment"), whereby, inter alia, a reporting corporation is required to issue an immediate report with regard to "details of a transaction with a controlling shareholder, or which the controlling shareholder has a personal interest in its confirmation, including highlights of the transaction or contract, details of the organ which confirmed the transaction and its summary reasons for the confirmation; in this paragraph, "transaction" excludes a transaction which the most recent financial statements classify transactions of its type as immaterial."

The Bank Association has applied to the Securities Authority with regard to implementation of the provision concerning "immaterial transaction" and the disclosure outline. According to agreements between the Bank Association and the Securities Authority, banks have been exempted from issuing immediate reports about banking transactions which are not unusual, provided that the banks specify criteria for unusual and immaterial transactions.

The criteria for unusual and immaterial transactions, as set by the Audit Committee of the Board of Directors on February 15, 2010 are as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the following criteria, is an immaterial transaction:

In this section, "transaction" means a transaction with a controlling shareholder, or a transaction in which a controlling shareholder has a personal interest.

A. Transactions for sale of retail products in the normal course of Bank business and at market conditions, amounting up to NIS 1.5 million per transaction, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.1% of the regulatory shareholders' equity, as defined in Proper Conduct of Banking Business Directive no. 312 (hereafter - "regulatory equity"). This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

B. Transactions for provision of services, including in the field of TV advertising, in the normal course of Bank business and at market conditions, amounting up to 0.1% of regulatory equity, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.75% of total annual operating and other expenses by the Bank's most recent annual financial statements. This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

C. Transactions involving leasing of space, in the normal course of Bank business and at market conditions, approved in a single calendar year and amounting up to 0.1% of regulatory equity.

D. Any other transaction in the normal course of Bank business and at market conditions, where the total amount for such a transaction type in a single calendar year is up to 0.1% of regulatory equity. This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

Banking transaction

Definition of "unusual transaction" - a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the following criteria shall be deemed to be, for this matter, a "material transaction":

A. **Indebtedness transaction** - an indebtedness transaction (after deductions, as stipulated in Proper Conduct of Banking Business Directive no. 312), which results in total indebtedness of any group of controlling shareholders exceeding 5% of regulatory equity, or a transaction which results in the increase in indebtedness of an individual borrower from among the controlling shareholders exceeding 2% of regulatory equity. If multiple indebtedness transactions are approved for the same borrower in a single calendar year, these indebtedness transactions shall be measured in aggregate. Any specific provision for doubtful debts, or write-off of any amount with regard to indebtedness of a controlling shareholder or a corporation affiliated with him, shall be deemed to be a material transaction. Measurement of total indebtedness, for this matter, shall be separate for the Wertheim Group and for the Ofer Group.

   "Group of controlling shareholders" - a controlling shareholder, as defined in the Securities Act, together with affiliated corporations, as the term "affiliated person" is defined in Proper Conduct of Banking Businesses Regulation No. 312, and together with relatives of controlling shareholders included in the group.

B. **Deposits** - receipt of deposit from a controlling shareholder shall be deemed to be a material transaction if, consequently, total deposits from the same group of controlling shareholders would exceed 2% of total deposits at the Bank. Receipt of deposit from a company which is an "affiliated person" of the controlling shareholder, and which is not a company controlled by him, shall be deemed to be a material transaction if, consequently, total deposits from that company, on a consolidated basis, would exceed 2% of total deposits at the Bank. Total deposits at the Bank would be calculated based on the most recent annual financial statement published by the Bank prior to the transaction date.

C. **Transaction in securities or in foreign currency (other than an indebtedness transaction or deposit transaction, as stated above)** - a transaction in securities or in foreign currency where the annual commission charged does not exceed 2% of total annual operating revenues of the Bank (less revenues from investment in shares), based on the most recent annual financial statement published by the Bank prior to the transaction date.

D. **Other transactions** - any other transaction for provision of financial and banking services, the revenues from which to the Bank exceed 0.1% of the Bank's total regulatory equity.

Any temporary, immaterial deviation for a period of up to 30 days would not change classification of the transaction as an immaterial transaction, and disclosure of such deviation would be provided in the annual report.

"Market conditions" - conditions which are not preferable to conditions at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or where the controlling shareholder has no personal interest in those transactions.
Market conditions with regard to banking transactions are compared to conditions of similar transactions, of similar volume, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Businesses Regulation No. 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions with them; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment.

In cases where the Bank has no similar transactions, market conditions are to be compared with similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Conduct of Banking Businesses Regulation No. 312 does not apply - as for indebtedness transactions to which Proper Conduct of Banking Businesses Regulation No. 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Businesses Regulation No. 312 and to provide disclosure in the Bank's annual financial statements.

The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders:

A. Indebtedness transactions (data as of December 31, 2009):

Group of controlling shareholders	Credit balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or an affiliated party	Total indebtedness[2]	Guarantee provided by a reporting entity controlled by the controlling shareholder, to secure credit granted by the Bank to a private company controlled by the controlling shareholder [3]
Wertheim Group and private companies controlled by it	42	37	1	4	84	-
Relatives of Wertheim Group	3	-	-	-	3	-
Reporting entities controlled by relatives of Wertheim Group						
Alony Hetz Properties and Investments Ltd.	-	-	-	-	-	31
Reporting entities controlled by Wertheim Group						
Neviot Teva HaGalil Ltd.	-	-	1	-	1	-
Total - Wertheim Group	45	37	2	4	88	31
Ofer Group and private companies controlled by it	-	-	-	1	1	-
Relatives of Ofer Group	208	155	3	14	380	-
Reporting entities controlled by relatives of Ofer Group						
Gadot Industries Biochemicals Ltd.	6	7	2	-	15	-
Oil Refineries Ltd.	113	7	-	-	120	-
Israel Chemicals Ltd.	-	-	9	-	9	-
Total - Ofer Group	327	169	14	15	525	-

(1) Indebtedness as defined in Proper Conduct of Banking Businesses Regulation No. 312, after set off of allowed deductions.

(2) Total exposure (before set off of deductions) to Ofer Group amounts to NIS 534 million.

(3) Excluded from definition of indebtedness in Proper Conduct of Banking Businesses Regulation No. 312.

B. Deposits (data as of December 31, 2009 - NIS in millions):

Group of controlling shareholders	Balance as of 2009, 31 December	Highest balance in 2009
Wertheim Group and private companies controlled by it	24	108
Relatives of Wertheim Group	2	2
Reporting entities controlled by Wertheim Group		
Amot Investments Ltd.	-	2
Neviot Teva HaGalil Ltd.	-	3
Total - Wertheim Group	26	115
Ofer Group and private companies controlled e by it	36	36
Relatives of Ofer Group	63	268
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	3	11
Israel Chemicals Ltd.	7	7
Israel Corporation Ltd.	6	218
Reporting entities controlled by Ofer Group		
Meliseron Ltd.	-	3
Total - Ofer Group	115	543

To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

Auditors' Fees[1][2][3]

(NIS in thousands)

	Consolidated		The Bank	
	2009	2008	2009	2008
For audit activities[4]				
Independent auditors [5]	7,084	[10]5,050	6,124	4,086
Other independent auditors [9]	586	[10]598	-	-
Total	7,670	5,648	6,124	4,086
For other services:				
Services related to the audit[6]:				
Independent auditors [5]	279	160	270	160
Other auditors	-	-	-	-
For tax services:[7]				
Independent auditors [5]	267	[10]190	267	146
Other independent auditors [9]	-	[10]34	-	-
For other services:				
Independent auditors [5][8]	255	281	255	281
Other independent auditors [9]	620	535	-	-
Total	1,421	1,200	792	587
Total fees to auditors	9,091	6,848	6,916	4,673

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.

(3) Includes fees paid and accrued.

(4) Audit of annual financial statements and review of interim financial statements.

(5) Includes other independent auditors in overseas branches.

(6) Includes mainly: prospectuses, special certifications, comfort letters and forms or reports to authorities requiring auditors' signature, as well as special projects not part of regular audit services.

(7) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.

(8) Includes mainly payments for consulting and various services.

(9) Data for 2009 includes fees of independent auditors of Bank Yahav. These fees include NIS 563 thousand and NIS 620 thousand, respectively for audit activities and other services. Data for 2008 include NIS 241 thousand, NIS 22 thousand and NIS 391 thousand, respectively for audit activities, tax services and other services for the second half of 2008.

(10) Reclassified.

Board of Directors

The Bank's members of the board of directors, their principal occupation, and other directorships are presented below:

Jacob Perry, Chairman	
Membership of Board of Directors' committees	Credit, Risk Management, Remuneration
Independent Board member?	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	Chairman, Board of Directors of Bank Mizrahi-Tefahot
Start date in office as member of the Bank's Board of Directors	February 24, 2003
Education	BA in Oriental Studies and Jewish History – Tel Aviv University; Advanced Course in Budget Management, Marketing and Economy - Harvard Business School
Current occupation	Chairman, MAGAL Ltd.; Board member, YAFTAL Holdings Ltd. (private company); Board member, Tamarind-Eloul Ltd.; Board member, New Kopel Holdings Ltd.; Member of Advisory Board, Markstone Foundation; Board member, Shlomo Sixt Ltd.
Previous occupation (in past 5 years)	Chairman, Lipman Electronic Engineering Ltd.; Chairman, Allo Telecom; Chairman, Pinpoint Advance Corp.; Chairman, AMAD Ltd.; Chairman, B-Contact Ltd.; Board member, Leadcom; Chairman, MID Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Zvi Ephrat	
Membership of Board of Directors' committees	Credit. Remuneration
Independent Board member?	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	January 24, 1995
Education	LL.B. - Hebrew University, Jerusalem; Attorney
Current occupation and in the past 5 years	Senior Partner, J. Gurnitzki & Co. law firm Board member, Ephrat Smith Trust Company
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Board of Directors (continued)

Ron Gazit	
Membership of Board of Directors' committees	Credit
Independent Board member?	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	LL.B. – Tel Aviv University; Attorney
Current occupation and in the past 5 years	Ron, Gazit, Ruthenberg & Co. - law firm; Board member, Gazit Ruthenberg Trust Company; Board member, Gover Radio Ltd.; Board member, R. Gazit Attorney (2002)
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Moshe (Mosie) Wertheim	
Membership of Board of Directors' committees	Risk Management, Remuneration
Independent Board member?	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	Chairman, Central Bottling Company Ltd. (Coca Cola)
Start date in office as member of the Bank's Board of Directors	January 24, 1995
Education	LL.M; Attorney; Certificate in Business Administration – Hebrew University, Jerusalem
Current occupation and in the past 5 years	Chairman, Central Bottling Company Ltd. (Coca Cola), Keshet Broadcasting Ltd., Keshet Communication Services Group Ltd. Board member, Alony Hetz Ltd. (public), Ilanim Development and Investments Ltd., MWZ Holding Ltd., Info-Prod (Middle Eastern Research) Ltd., F&W (Registered Partnership), T.T. Transport and Marketing Services (1987) Ltd., Mada'im Shimushim (2000) Ltd., IMPG Management Ltd., TSRON Management Ltd., W.H.M. Properties Ltd., Alcorp Ltd., Ramcon Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

Board of Directors (continued)

Avi Ziegelman	
Membership of Board of Directors' committees	Audit, Balance sheet, Risk Management, Remuneration
Independent Board member?	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	September 19, 2007
Education	BA in Accounting and Economics – Tel Aviv University; MA in Business Economy (Finance) – Tel Aviv University; CPA
Current occupation	Financial consultant and Board member, Board member, Tafron Ltd.; Gindi Investments 1 Ltd.; Afcon Electro-Mechanics Ltd. (independent Board member); Pangaya Real Estate Ltd.; King Ltd. (independent Board member); Simcha Uriely and Sons Ltd.; Ilex Medical Ltd. (independent Board member); Orev Technologies 1977 Ltd. (independent Board member), Cialo Technolgoy Israel Ltd. (independent Board member), Clal Biotechnolgy Industries Ltd. (independent Board member), Ofir Optronics Ltd., DGC Group Ltd.
Previous occupation (in past 5 years)	Senior Partner, Head of Professional Practice, KPMG Somech Chaykin; Board member and financial consultant
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

Mordechai Meir	
Membership of Board of Directors' committees	Risk Management
Independent Board member?	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	December 24, 2008
Education	BA in Accounting and Economics – Tel Aviv University; CPA.
Current occupation (and in the past 5 years)	CEO, Merav Management Ltd.; Board member, Ofer Brothers Properties (1957) Ltd. and Melisron Ltd. Board memberships: Ofer Commercial Centers (MAOF Management) Ltd.; C.A.B.M. Ltd.; Ofer Bros. Engineering and Development Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Bros. Foreign Investments Ltd.; Electric Wires (Properties) Ltd.; Melissa Ltd.; Mi-Del Properties Ltd.; Mistletoe Holding B.V.; Bney Moshe Karasso Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Board of Directors (continued)

Dov Mishor	
Membership of Board of Directors' committees	Audit, Credit, Balance Sheet, Risk Management
Independent Board member?	Yes (pursuant to Proper Conduct of Banking Businesses Regulation No. 301)
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	January 29, 2007
Education	BA in Economics and Political Science, MA in Economics – Hebrew University, Jerusalem
Current occupation	Financial consultant, Board member, Guy Development Ltd. Member, Executive Board of Shazar Center for Jewish History
Previous occupation (in past 5 years)	Board member, Bank Leumi; Board memberm, Ashot Ashkelon Industries Ltd.; lecturer, Economics Department, Ben Gurion University; Board member, Guy Development.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Gideon Sitterman	
Membership of Board of Directors' committees	Credit, Audit, Balance Sheet, Remuneration, Risk Management
Independent Board member?	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	July 7, 2009
Education	Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA.
Current occupation	Independent Board member?
Previous occupation (in past 5 years)	Business development, Central Bottling Company Ltd. (Coca Cola) 2001-2006; Director Manager, Ministry of Transportation and Road Safety 2006-2009
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

Board of Directors (continued)

Liora Ofer	
Membership of Board of Directors' committees	Credit
Independent Board member?	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	Board member, Ofer Brothers Properties (1957) Ltd.
Start date in office as member of the Bank's Board of Directors	January 23, 2006
Education	High school
Current occupation	Board member: Meliseron Ltd.; Uru Investments Ltd.; Uru Foreign Investments (1999) Ltd.; Halidor Promoters Ltd.; Ofer Bros. Properties (1957) Ltd.
Previous occupation (in past 5 years)	CEO, Almog Beach Company (Eilat) Ltd.
Family member of another interested party in the corporation?	Daughter of Mr. Yuli Ofer
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Abraham (Beigah) Shochat	
Membership of Board of Directors' committees	Credit, Audit, Balance Sheet, Remuneration, Risk Management
Independent Board member?	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	January 23, 2006
Education	B.Sc. in Civil Engineering, Technion, Haifa
Current occupation	Board member, ICL, Alon USA Energy Inc., Clay Capital Markets Ltd., Direct Insurance and Financial Investments Ltd., Rotem Amfert Negev Ltd., Dead Sea Works Ltd., Bromine Compounds Company Ltd., Dead Sea Bromine Ltd., Chairman, Investment Committee – Israel Infrastructure Fund, IDI Technologies Ltd.
Previous occupation (in past 5 years)	Member of parliament; Consultant to Chairman of BARAN Ltd.; Board member of Desalination Engineering, IDB
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

During 2009, the Bank Board of Directors held 23 plenary meetings and 60 committee meetings.

The permanent Board committees are: Audit Committee, Balance Sheet Committee, Risk Management Committee, Credit Committee and Remuneration Committee.

Presented below are the changes in the Board of Directors during the year 2009 and until the publication date of the financial statements:

- At the Board meeting on January 19, 2009, Mr. Avraham Natan announced his retirement from the Bank Board of Directors. He left his office as Board member on April 30, 2009.
- At the Board meeting held on February 16, 2009, Ms. Leora Ofer was appointed member of the Executive Committee, replacing Mr. Yuli Ofer.
- At the Board meeting held on May 19, 2009, it was decided to appoint Mr. Dov Mishor Chairman of the Audit Committee, replacing Mr. Avraham Natan.
- At the Board of Directors meeting held on June 29, 2009, the Chairman of the Board, Mr. Jacob Perry, announced the resignation of Mr. YOSSI ROZEN from the Bank Board, effective as of the notice date.
- At the Annual General Meeting held on June 25, 2009, Mr. Gideon Sitterman was appointed independent Board member. His start date in office is July 7, 2009.
- On December 13, 2009, Mr. Yosef Bahat retired from his position as a member of the Bank's Board of Directors.
- At the Board meeting held on December 14, 2009, the Risk Management Committee was created. This committee replaces the Management Committee which had existed through that date. This committee is tasked with discussing issues related to risk management at the Bank, including issues pertaining to internal controls at the Bank which are within the authority of the Board of Directors, provided that the Board of Directors is not required to discuss such issues in plenum.

Board members having accounting and financial qualifications

The Bank’s Board of Directors prescribed that at least three directors should have accounting and finance skills. In the Board’s opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that each of the Audit Committee and Balance Sheet Committee would have as members at least 2 Board members having accounting and financial qualifications. At the publication date of these financial statements, there are six directors on the Board having accounting and finance skills: Messrs. Moshe (Mosie) Wertheim, Avi Ziegelman, Mordechai Meir, Dov Mishor, Gideon Sitterman and Abraham (Beigah) Shochat. Each of the Audit Committee and Balance Sheet Committee has as members 4 Board members having accounting and financial qualifications.

Below are the facts related to each of the directors in the Bank named above, and by virtue of which they are to be deemed having accounting and financial skills:

Moshe (Mosie) Wertheim

Attorney, Bachelors of Law degree, certificate of business administration, serves as chairman of the board and CEO of Central Bottling Co. Ltd., director in Alony-Hetz Properties and Investments Ltd., in the Keshet Group companies and in other companies.

Avi Ziegelman

Holds undergraduate degree in Accounting and Economics and graduate degree in Business Economics (Finance). Licensed as CPA. Provides financial consulting and serves as Board member with different companies. Was Senior Partner, Head of Professional Department with KPMG Somekh Chaykin CPA.

Mordechai Meir

Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA. Worked for nine years at Somekh Chaikin as Senior CPA, board member of public companies, consultant to interested parties in public companies. For the past 10 years: CEO of consulting firm, MERAV Management Ltd. - specialized in consulting to and representation of real estate and financials sectors for major corporations and enterprises.

Dov Mishor

Graduate degree in Economics, Lecturer in the Economics Departments of Ben-Gurion University, Director Guy Yizum Ltd., served in the past as a director in Bank Leumi, Ashot Ashkelon and as President of the Israel-Asia Trade Office.

Gideon Sitterman

CPA, former member of Securities Authority, Director General of the Ministry of Transportation, has extensive accounting, economics and financial knowledge.

Abraham (Beigah) Shochat

Former Minister of Finance, Minister of National Infrastructure, Member of Knesset, Chairman of the Knesset Economics Committee, Chairman of the Knesset Finance Committee – in these positions he acquired skills and understanding on business and financial statement matters.

The Bank's Board of Directors thanks the President, the management of the Bank and its employees for their efforts to promote the Bank, the result of their diligent efforts to maintain the Bank's services with the appropriate responsibility. The Board of Directors appreciates the constant efforts of the President, the Bank's management and its employees to expand the business activities and client base.

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

Ramat Gan, March 21, 2010

Management Review of Group Business and Operating Results

Table of Contents

Management Review - Addendum A
Consolidated Balance Sheet - Multi-period information
As of year end, 2005-2009

Reported amounts (NIS in millions)

	2009	2008	2007	2006	2005
Assets					
Cash and deposits with banks	11,011	11,038	10,701	10,797	12,252
Securities	7,643	9,259	6,145	5,979	6,570
Securities loaned or sold in repurchase agreements	307	12	5	-	-
Credit to the public	95,249	(1) 88,923	74,320	70,109	65,608
Loans to the Government	301	2	3	4	92
Investments in investees	12	17	17	42	87
Buildings and equipment	1,522	1,476	1,246	1,293	1,221
Other assets	2,394	4,159	2,880	2,487	1,409
Total assets	118,439	114,886	95,317	90,711	87,239
Liabilities and Shareholders' Equity					
Deposits from the public	95,021	91,779	75,290	73,234	71,346
Deposits from banks	1,899	1,867	3,752	3,073	3,132
Deposits from the Government	209	242	282	560	728
Securities loaned or sold in conjunction with repurchase agreements	-	972	-	-	-
Debentures and subordinated notes	8,166	6,837	6,189	5,067	4,305
Other liabilities	6,259	(1) 6,886	4,247	3,710	3,046
Total liabilities	111,554	108,583	89,760	85,644	82,557
Minority interest	353	351	-	6	6
Shareholders' equity	6,532	5,952	5,557	5,061	4,676
Total liabilities and shareholders' equity	118,439	114,886	95,317	90,711	87,239

(1) **Reclassified.**

For more information, See Note 4.A.4).

Management Discussion - Addendum B
Consolidated Statement of Profit and Loss – Multi-period information
For the years ended December 31, 2005-2009

Reported amounts (NIS in millions)

	2009	2008	2007	2006	2005
Profit from financing operations before provision for doubtful debts	2,385	2,289	2,026	1,987	1,904
Provision for doubtful debts	375	395	228	305	292
Profit from financing operations after provision for doubtful debts	2,010	1,894	1,798	1,682	1,612
Operating and other revenues					
Operating commissions	1,307	(1) 1,161	(1) 1,108	(1) 1,137	(1) 1,089
Gains from investments in shares, net	114	46	65	50	3
Other revenues	43	(1) 22	(1) 17	(1) 28	(1) 22
Total operating and other revenues	1,464	1,229	1,190	1,215	1,114
Operating and other expenses					
Payroll and associated expenses	1,630	1,273	1,169	1,395	1,154
Maintenance and depreciation of buildings and equipment	557	473	421	385	349
Other expenses	453	407	348	337	336
Total operating and other expenses	2,640	2,153	1,938	2,117	1,839
Pre-tax operating profit	834	970	1,050	780	887
Provision for taxes on operating profit	286	356	368	349	371
After-tax operating profit	548	614	682	431	516
Share in net, after-tax operating loss of investees	(1)	(1)	(1)	(4)	(3)
Minority interest in net after-tax operating profit of subsidiaries	(15)	(12)	-	-	-
Net operating profit	532	601	681	427	513
After-tax profit (loss) from extraordinary items	(2)	1	227	216	(2)
Cumulative after-tax effect, as at beginning of year, of change in accounting method	-	-	-	-	(4)
Net profit	530	602	908	643	507

(1) **Reclassified.**

Management Discussion - Addendum B (continued)

Consolidated Statement of Profit and Loss - Multi-period information

For the years ended December 31, 2005-2009

Reported amounts

	2009	2008	2007	2006	2005
Earnings per share [(1)]					
Basic earnings per share (in NIS)					
Earnings per share from operating profit	2.39	2.70	3.08	1.95	2.35
Profit (loss) from extraordinary items	(0.01)	0.01	1.03	0.99	(0.01)
Cumulative after-tax effect, as of beginning of period, of change in accounting method	-	-	-	-	(0.02)
Total	2.38	2.71	4.11	2.94	2.32
Diluted earnings per share (in NIS)					
Earnings per share from operating profit	2.38	2.68	3.03	1.91	2.33
Profit (loss) from extraordinary items	(0.01)	0.01	1.01	0.97	(0.01)
Cumulative after-tax effect, as of beginning of period, of change in accounting method	-	-	-	-	(0.02)
Total	2.37	2.69	4.04	2.88	2.30

(1) **Share of NIS 0.1 par value each.**

Management Discussion - Addendum C
Income and Expense Rates - of the Bank and its Subsidiaries [1]
For the year ended December 31

Reported amounts (NIS in millions)

	2009				2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [4]	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [4]
			in %				in %	
Israeli currency - non-linked								
Assets [3]	53,688	1,511	2.81		38,191	2,080	5.45	
Effect of embedded and ALM derivatives [4]	44,417	406			41,337	2,072		
Total assets	98,105	1,917		1.95	79,528	4,152		5.22
Liabilities [3]	53,082	(372)	(0.70)		41,911	(1,186)	(2.83)	
Effect of embedded and ALM derivatives [4]	39,178	(425)			34,555	(1,765)		
Total liabilities	92,260	(797)		(0.86)	76,466	(2,951)		(3.86)
Interest margin			2.11	1.09			2.62	1.36
Israeli currency - linked to the CPI								
Assets [3]	36,738	2,994	8.15		36,461	3,384	9.28	
Effect of embedded and ALM derivatives [4]	3,704	227	-		4,390	242		
Total assets	40,442	3,221		7.96	40,851	3,626		8.88
Liabilities [3]	31,600	(2,471)	(7.82)		29,650	(2,576)	(8.69)	
Effect of embedded and ALM derivatives [4]	7,978	(474)			9,615	(623)		
Total liabilities	39,578	(2,945)		(7.44)	39,265	(3,199)		(8.15)
Interest margin			0.33	0.52			0.59	0.73

See remarks below.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Discussion - Addendum C (continued)

Income and Expense Rates - of the Bank and its Subsidiaries [(1)]

For the year ended December 31

Reported amounts (NIS in millions)

				2009				2008
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [(4)]	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [(4)]
			in %				in %	
Foreign currency [(5)]								
Assets [(3)]	22,506	143	0.64		21,638	(668)	(3.09)	
Effect of derivatives [(4)]								
Hedging derivatives	1,125	101			662	(67)		
Embedded and ALM derivatives	41,592	1,337			41,655	1,234		
Total assets	65,223	1,581		2.42	63,955	499		0.78
Liabilities [(3)]	21,528	194	0.90		19,273	1,508	7.82	
Effect of derivatives [(4)]	1,239	(127)						
Hedging derivatives					682	(69)		
Embedded and ALM derivatives	41,639	(1,012)			42,850	(1,586)		
Total liabilities	64,406	(945)		(1.47)	62,805	(147)		(0.23)
Interest margin			1.54	0.95			4.74	0.55

See remarks below.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Discussion - Addendum C (continued)

Income and Expense Rates - of the Bank and its Subsidiaries [1]

For the year ended December 31

Reported amounts (NIS in millions)

	2009				2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [4]	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [4]
			in %				**in %**	
Total								
Monetary assets generating financing revenues [3]	112,932	4,648	4.12		96,290	4,796	4.98	
Effect of derivatives [4]								
Hedging derivatives	1,125	101			662	(67)		
Embedded and ALM derivatives	89,713	1,970			87,382	3,548		
Total assets	203,770	6,719		3.30	184,334	8,277		4.49
Monetary liabilities generating financing expenses [3]	106,210	(2,649)	(2.49)		90,834	(2,254)	(2.48)	
Effect of derivatives [4]								
Hedging derivatives	1,239	(127)			682	(69)		
Embedded and ALM derivatives	88,795	(1,911)			87,020	(3,974)		
Total liabilities	196,244	(4,687)		(2.39)	178,536	(6,297)		(3.53)
Interest margin			1.63	0.91			2.50	0.96
On options		(45)				73		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [4])		51				(6)		
Commissions from financing transactions and other financing revenues [6]		387				268		
Other financing expenses		(40)				(26)		
Profit from financing operations before provision for doubtful debts		2,385				2,289		
Provision for doubtful debts (includes general and supplementary provision)		(375)				(395)		
Profit from financing operations after provision for doubtful debts		2,010				1,894		

See remarks below.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Discussion - Addendum C (continued)

Income and Expense Rates - of the Bank and its Subsidiaries [1]

For the year ended December 31

Reported amounts (NIS in millions)

	2009	2008
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	112,932	96,290
Assets deriving from derivatives [5]	2,614	2,447
Other monetary assets [3]	773	1,627
General and supplementary provision for doubtful debts	(212)	(179)
Total monetary assets	116,107	100,185
Total		
Monetary liabilities generating financing expenses [3]	106,210	90,834
Liabilities deriving from derivatives [5]	2,384	2,210
Other monetary liabilities [3]	2,048	2,603
Total monetary liabilities	110,642	95,647
Total excess monetary assets over monetary liabilities	5,465	4,538
Non-monetary assets	1,497	1,661
Non-monetary liabilities	220	181
Total capital resources	6,742	6,018

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

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Discussion - Addendum C (continued)

Income and Expense Rates - of the Bank and its Subsidiaries (1)

For the year ended December 31

Nominal (US$ in millions)

	2009				2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [(4)]	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives [(4)]
			in %				in %	
Foreign currency [(5)]								
Assets [(3)]	5,425	147	2.71		5,957	306	5.14	
Effect of derivatives [(4)]								
Hedging derivatives	286	26			185	(19)		
Embedded and ALM derivatives	10,514	246			11,610	589		
Total assets	16,225	419		2.58	17,752	876		4.93
Liabilities [(3)]	5,384	(32)	(0.59)		5,206	(152)	(2.92)	
Effect of derivatives [(4)]								
Hedging derivatives	315	(32)			190	(19)		
Embedded and ALM derivatives	10,536	(238)			11,943	(594)		
Total liabilities	16,235	(302)		(1.86)	17,339	(765)		(4.41)
Interest margin			2.12	0.72			2.22	0.52

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance sheet balance of specific provisions for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives (excluding options), embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Including Israeli currency linked to foreign currency.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Review - Addendum D
Exposure of the Bank and its Subsidiaries
To changes in interest rates
As of December 31, 2009

Reported amounts (NIS in millions)

	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 (2)						
Financial assets (1)	54,093	594	2,453	1,404	416	116
Financial derivatives (except for options)	9,705	14,019	15,229	3,643	1,573	2,411
Options (in terms of underlying asset)	(907)	(435)	(262)	6	-	-
Total fair value	62,891	14,178	17,420	5,053	1,989	2,527
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities (2)						
Financial liabilities (1)	44,126	2,763	4,004	2,565	1,532	267
Financial derivatives (except for options)	12,998	15,357	10,515	3,473	1,506	2,313
Options (in terms of underlying asset)	(537)	(362)	786	6	-	-
Total fair value	56,587	17,758	15,305	6,044	3,038	2,580
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	6,304	(3,580)	2,115	(991)	(1,049)	(53)
Cumulative exposure in sector	6,304	2,724	4,839	3,848	2,799	2,746

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) Instruments classified by term based on average effective duration of each instrument, since exposure to the interest rates there of could not be reflected by classification by term to maturity of cash flows or term to next interest renewal date.

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

General note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 20.3) to the financial statements, consistent with assumptions used to calculate the fair value of the financial instrument. For further details of assumptions used in calculation of the fair value of financial instruments, see Note 20.2) to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 20.3) to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Internal rate of return and average duration for 2008 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted future cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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.

				2009			2008	
	10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return in percent	Average effective duration in years	Internal rate of return in percent	Average term to maturity in years
	9	278	596	59,959	3.37%	0.25	3.67%	0.12
	-	-	-	46,580		0.99		
	-	-	-	(1,598)		0.35		
	9	278	596	104,941		0.58		
	76	20	-	55,353	2.09%	0.31	3.34%	0.25
	-	-	-	46,162		1.01		
	-	-	-	(107)		0.16		
	76	20	-	101,408		0.63		
	(67)	258	596	3,533				
	2,679	2,937	3,533	3,533				

Management Discussion - Addendum D (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates
As of December 31, 2009

Reported amounts (NIS in millions)

	On Call to 1month	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 (2)						
Financial assets (1)	465	2,164	9,343	11,822	6,522	6,194
Financial derivatives (except for options)	-	78	550	1,693	554	195
Options (in terms of underlying asset)	-	-	-	-	-	-
Total fair value	465	2,242	9,893	13,515	7,076	6,389
Total fair value						
Financial liabilities (1)	1,086	1,746	5,453	7,364	6,993	8,184
Financial derivatives (except for options)	4	643	2,687	2,006	306	422
Options (in terms of underlying asset)	-	-	-	-	-	-
Total fair value	1,090	2,389	8,140	9,370	7,299	8,606
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(625)	(147)	1,753	4,145	(223)	(2,217)
Cumulative exposure in sector	(625)	(772)	981	5,126	4,903	2,686

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) Instruments classified by term based on average effective duration of each instrument, since exposure to the interest rates there of could not be reflected by classification by term to maturity of cash flows or term to next interest renewal date.

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

General note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 20.3) to the financial statements, consistent with assumptions used to calculate the fair value of the financial instrument. For further details of assumptions used in calculation of the fair value of financial instruments, see Note 20.2) to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 20.3) to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 20.3) to the financial statements.
- Internal rate of return and average duration for 2008 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted future cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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.

			2009			2008		
						Internal rate of return in percent	Average term to maturity in years
10-20 years	Over 20 years	Without maturity	Total fair value	Total fair value	Total fair value		
1,468	20	87	38,085	3.67%	3.37	4.93%	3.08
-	-	-	3,070		2.05		
-	-	-	-		0.00		
1,468	20	87	41,155		3.27		
2,825	305	2	33,958	2.91%	4.48	4.68%	4.02
-	-	-	6,068		1.41		
-	-	-	-		0.00		
2,825	305	2	40,026		4.01		
(1,357)	(285)	85	1,129				
1,329	1,044	1,129	1,129				

Management Discussion - Addendum D (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates
As of December 31, 2009

Reported amounts (NIS in millions)

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency [5]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets [2]						
Financial assets [1]	8,742	5,141	1,845	496	860	1,141
Financial derivatives (except for options)	20,812	12,954	9,132	1,420	326	145
Options (in terms of underlying asset)	(596)	(201)	818	10	-	-
Total fair value	28,958	17,894	11,795	1,926	1,186	1,286
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities [2]						
Financial liabilities [1]	11,840	6,968	2,907	(146)	(214)	419
Financial derivatives (except for options)	17,904	8,734	13,176	1,563	489	877
Options (in terms of underlying asset)	(1,000)	(273)	(239)	10	-	-
Total fair value	28,744	15,429	15,844	1,427	275	1,296
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	214	2,465	(4,049)	499	911	(10)
Cumulative exposure in sector	214	2,679	(1,370)	(871)	40	30

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) Instruments classified by term based on average effective duration of each instrument, since exposure to the interest rates there of could not be reflected by classification by term to maturity of cash flows or term to next interest renewal date.

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

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

(5) Including Israeli currency linked to foreign currency.

General note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 20.3) to the financial statements, consistent with assumptions used to calculate the fair value of the financial instrument. For further details of assumptions used in calculation of the fair value of financial instruments, see Note 20.2) to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 20.3) to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Internal rate of return and average duration for 2008 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted future cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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.

			2009			2008	
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return in percent	Average effective duration in years	Internal rate of return in percent	Average term to maturity in years
53	(1)	72	18,349	2.78%	1.03	6.79%	0.70
1	-	-	44,790		0.89		
-	-	-	31		0.50		
54	(1)	72	63,170		0.93		
20	-	2	21,796	1.54%	0.88	3.29%	0.46
-	-	-	42,743		1.05		
-	-	-	(1,502)		0.31		
20	-	2	63,037		1.01		
34	(1)	70	133				
64	63	133	133				

Management Discussion - Addendum D (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates
As of December 31, 2009

Reported amounts (NIS in millions)

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Non-monetary						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets [2]						
Options (in terms of underlying asset)	(11)	6	6	-	-	-
Total fair value	(11)	6	6	-	-	-
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets [2]						
Financial assets [1][4]	63,300	7,899	13,641	13,722	7,798	7,451
Financial derivatives (except for options)	30,517	27,051	24,911	6,756	2,453	2,751
Options (in terms of underlying asset)	(1,514)	(630)	562	16	-	-
Total fair value	92,303	34,320	39,114	20,494	10,251	10,202
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities [2]						
Financial liabilities [1]	57,052	11,477	12,364	9,783	8,311	8,870
Financial derivatives (except for options)	30,906	24,734	26,378	7,042	2,301	3,612
Options (in terms of underlying asset)	(1,537)	(635)	547	16	-	-
Total fair value	86,421	35,576	39,289	16,841	10,612	12,482
Financial instruments, net						
Total exposure to interest rate fluctuations	5,882	(1,256)	(175)	3,653	(361)	(2,280)
Total cumulative exposure	5,882	4,626	4,451	8,104	7,743	5,463

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) Instruments classified by term based on average effective duration of each instrument, since exposure to the interest rates there of could not be reflected by classification by term to maturity of cash flows or term to next interest renewal date.

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

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

General note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 20.3) to the financial statements, consistent with assumptions used to calculate the fair value of the financial instrument. For further details of assumptions used in calculation of the fair value of financial instruments, see Note 20.2) to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 20.3) to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Internal rate of return and average duration for 2008 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted future cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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.

			2009			2008	
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return in percent	Internal rate of return in percent	Internal rate of return in percent	Average term to maturity in years
-	-	-	1				
-	-	-	1				
1,530	297	755	116,393		1.40		1.28
1	-	-	94,440		0.98		
-	-	-	(1,566)		0.35		
1,531	297	755	209,267		1.22		
2,921	325	4	111,107		1.70		1.45
-	-	-	94,973		1.05		
-	-	-	(1,609)		0.30		
2,921	325	4	204,471		1.41		
(1,390)	(28)	751	4,796				
4,073	4,045	4,796	4,796				

Management Review - Addendum E
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	Debentures (5)	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Futures transactions	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	232	4	236	918	2	35
Industry	5,609	13	33	5,655	4,519	462	4,981	10,636	41	301
Construction and real estate	6,317	41	11	6,369	9,140	157	9,297	15,666	18	1,277
Electricity and water	276	64	149	489	730	162	892	1,381	-	-
Commerce	4,680	-	21	4,701	3,421	196	3,617	8,318	30	201
Hotel and food services	231	-	1	232	65	2	67	299	2	45
Transport and storage	699	1	2	702	575	111	686	1,388	3	62
Communications and computer services	647	11	17	675	545	95	640	1,315	8	60
Financial services	6,495	29	175	6,699	6,972	965	7,937	14,636	132	1,537
Other business services	2,486	-	4	2,490	1,202	52	1,254	3,744	8	84
Public and community services	764	-	-	764	431	5	436	1,200	8	100
Individuals: Housing loans	52,336	-	-	52,336	3,362	-	3,362	55,698	25	1,021
Other	10,760	-	45	10,805	9,205	102	9,307	20,112	71	542
Total	91,982	159	458	92,599	40,399	2,313	42,712	135,311	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	40,884	2,465	43,349	139,471	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	41,611	10,828	52,439	167,646	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.

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

Management Discussion - Addendum E (continued)
Credit Risk by Economic Sector - Consolidated
As of December 31, 2008

Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (3)	Total credit risk of the public	Annual expense with respect to specific provision for doubtful debts	Balance of problem loans (4)
Agriculture	723	256	979	3	25
Industry	6,826	6,312	13,138	49	506
Construction and real estate	7,411	7,406	14,817	27	2,284
Electricity and water	285	869	1,154	1	33
Commerce	4,842	3,873	8,715	42	253
Hotel and food services	244	273	517	1	29
Transport and storage	711	538	1,249	2	15
Communications and computer services	548	1,220	1,768	-	51
Financial services	7,000	7,858	14,858	123	1,712
Other business services	2,493	1,072	3,565	19	85
Public and community services	783	507	1,290	3	114
Private individuals - housing loans	44,855	3,317	48,172	45	1,172
Private individuals - other	(2) 9,910	(2) 8,472	18,382	61	570
Total	86,631	41,973	128,604	376	6,849
For borrowers' activities overseas	3,478	645	4,123	3	47
Total	90,109	42,618	132,727	379	6,896
Credit risk to public included under various economic sectors:					
Settlement movements (5)	1,449	822	2,271	-	164
Local authorities (6)	177	29	206	-	31

(1) Includes loans to the public and investments in debentures of the public of NIS 232 million and other assets related to derivatives against the public totaling NIS 759 million.
(2) Reclassified. For more information, See Note 4.A.4).
(3) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(4) 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.
(5) Kibbutzim and moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(6) Includes entities under their control.
Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Discussion - Addendum E (continued)
Credit Risk by Economic Sector - Average balances

For the year ended December 31, 2009

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 commitmens on account of clients	Futures transactions	Total	Total credit risk of the public
Agriculture	692	-	1	693	254	3	257	950
Industry	6,288	12	60	6,360	5,916	419	6,335	12,695
Construction and real estate	6,680	42	10	6,732	7,455	86	7,541	14,273
Electricity and water	292	29	104	425	623	212	835	1,260
Commerce	4,919	-	53	4,972	3,320	296	3,616	8,588
Hotel and food services	232	-	3	235	114	15	129	364
Transport and storage	711	3	24	738	468	116	584	1,322
Communications and computer services	654	7	19	680	811	168	979	1,659
Financial services	7,345	30	247	7,622	6,512	1,166	7,678	15,300
Other business services	2,474	-	26	2,500	1,116	173	1,289	3,789
Public and community services	774	-	3	777	428	8	436	1,213
Individuals: Housing loans	48,304	-	-	48,304	3,814	-	3,814	52,118
Other	9,623	-	56	9,679	9,484	151	9,635	19,314
Total	88,988	123	606	89,717	40,315	2,813	43,128	132,845
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	40,828	2,984	43,812	137,018
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	41,197	11,900	53,057	166,579
Credit risk to public included under various economic sectors:								
Settlement movements [3]	1,367	-	3	1,370	810	19	829	2,199
Local authorities [4]	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) 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 601 million.
Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Review - Addendum F
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 governments (3)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities			Total off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Maturing in under 1 year	Maturing in over 1 year
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
Total exposure to LDC countries	1	66	272	-	-	-	339	17	152	-	202	137
As of December 31, 2008												
USA	492	795	1,251	2,248	97	2,151	4,689	21	1,636	2	1,793	745
UK	-	567	111	703	306	397	1,075	27	2,575	-	413	265
Germany	-	590	96	-	-	-	686	-	752	-	387	299
Switzerland	-	358	95	-	-	-	453	3	751	-	307	146
Other	17	1,423	2,449	-	-	-	3,889	58	1,807	2	2,922	967
Total exposure to foreign countries	509	3,733	4,002	2,951	403	2,548	10,792	109	7,521	4	5,822	2,422
Total exposure to LDC countries	2	103	277	-	-	-	382	14	82	-	292	90

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(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 F (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 December 31, 2009, there is no exposure requiring disclosure in accordance with the public reporting directives of the Supervisor of Banks.

		As of December 31, 2008
Country	Balance sheet exposure	Off-balance sheet exposure
Holland	640	445

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.

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.

Management Review - Addendum G
Consolidated Balance Sheet – Multi-quarter information
As of the end of each quarter in 2009

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	11,011	9,833	9,828	9,620
Securities	7,643	7,878	8,188	8,268
Securities loaned or sold in repurchase agreements [(1)]	307	486	828	783
Credit to the public	95,249	[(1)] 93,972	[(1)] 92,645	[(1)] 92,988
Loans to the Government	301	297	310	2
Investments in investees	12	12	11	11
Buildings and equipment	1,522	1,458	1,461	1,458
Other assets	2,394	2,587	3,027	4,712
Total assets	118,439	116,523	116,298	117,842
Liabilities and Shareholders' Equity				
Deposits from the public	95,021	93,405	93,744	94,548
Deposits from banks	1,899	2,122	2,036	1,516
Deposits from the Government	209	220	229	237
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-
Debentures and subordinated notes	8,166	7,888	7,697	7,447
Other liabilities	6,259	[(1)] 6,092	[(1)] 5,905	[(1)] 7,679
Total liabilities	111,554	109,727	109,611	111,427
Minority interest	353	358	362	360
Shareholders' equity	6,532	6,438	6,325	6,055
Total liabilities and shareholders' equity	118,439	116,523	116,298	117,842

(1) Reclassified. For more information, See Note 4.A.4).

Management Discussion - Addendum G (continued)
Consolidated Balance Sheet – Multi-quarter information
As of the end of each quarter in 2008

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	11,038	10,892	10,439	9,895
Securities	9,259	7,449	4,432	4,096
Securities loaned or sold in repurchase agreements	12	-	28	110
Credit to the public	(1) 88,923	(1) 84,820	77,310	75,117
Loans to the Government	2	3	3	3
Investments in investees	17	17	17	18
Buildings and equipment	1,476	1,402	1,258	1,239
Other assets	4,159	3,372	4,012	4,212
Total assets	114,886	107,955	97,499	94,690
Liabilities and Shareholders' Equity				
Deposits from the public	91,779	84,681	72,928	73,237
Deposits from banks	1,867	2,465	5,620	3,273
Deposits from the Government	242	443	256	267
Securities loaned or sold in conjunction with repurchase agreements	972	600	-	-
Debentures and subordinated notes	6,837	6,870	6,649	6,338
Other liabilities	(1) 6,886	(1) 6,717	6,325	5,954
Total liabilities	108,583	101,776	91,778	89,069
Minority interest	351	333	-	-
Shareholders' equity	5,952	5,846	5,721	5,621
Total liabilities and shareholders' equity	114,886	107,955	97,499	94,690

(1) Reclassified. For more information, See Note 4.A.4).

Management Review - Addendum H

Consolidated Statement of Profit and Loss – Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2009

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Profit from financing operations before provision for doubtful debts	655	582	564	584
Provision for doubtful debts	107	82	67	119
Profit from financing operations after provision for doubtful debts	548	500	497	465
Operating and other revenues				
Operating commissions	353	332	313	309
Gain (loss) from investment in shares, net	55	52	11	(4)
Other revenues	9	12	10	12
Total operating and other revenues	417	396	334	317
Operating and other expenses				
Payroll and associated expenses	504	404	352	370
Maintenance and depreciation of buildings and equipment	141	139	143	134
Other expenses	140	111	101	101
Total operating and other expenses	785	654	596	605
Pre-tax operating profit	180	242	235	177
Provision for taxes on operating profit	61	81	79	65
After-tax operating profit	119	161	156	112
Share in net, after-tax operating loss of investees	(1)	-	-	-
Minority interest in net after-tax operating profit of subsidiaries	(2)	(5)	(6)	(2)
Net operating profit	116	156	150	110
Net after-tax loss from extraordinary items	(2)	-	-	-
Net profit	114	156	150	110
Earnings per share (1)				
Basic earnings per share (in NIS)				
Earnings per share from operating profit	0.51	0.70	0.68	0.50
Profit from extraordinary items	(0.01)	-	-	-
Total	0.50	0.70	0.68	0.50
Diluted earnings per share (in NIS)				
Earnings per share from operating profit	0.50	0.70	0.68	0.50
Profit from extraordinary items	(0.01)	-	-	-
Total	0.49	0.70	0.68	0.50

(1) Share of NIS 0.1 par value each.

Management Review - Addendum H (continued)

Consolidated Statement of Profit and Loss - Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2008

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Profit from financing operations before provision for doubtful debts	588	598	554	549
Provision for doubtful debts	182	117	55	41
Profit from financing operations after provision for doubtful debts	406	481	499	508
Operating and other revenues				
Operating commissions	(1)310	(1)314	(1)270	(1)267
Gain (loss) from investment in shares, net	16	(3)	25	8
Other revenues	(1)5	(1)4	(1)5	(1)8
Total operating and other revenues	331	315	300	283
Operating and other expenses				
Payroll and associated expenses	327	331	303	312
Maintenance and depreciation of buildings and equipment	132	126	111	104
Other expenses	129	107	86	85
Total operating and other expenses	588	564	500	501
Pre-tax operating profit	149	232	299	290
Provision for taxes on operating profit	47	86	113	110
After-tax operating profit	102	146	186	180
Share in net, after-tax operating loss of investees	(1)	-	-	-
Minority interest in net after-tax operating profit of subsidiaries	(5)	(7)	-	-
Net operating profit	96	139	186	180
Net after-tax profit from extraordinary items	-	1	-	-
Net profit	96	140	186	180
Earnings per share (2)				
Basic earnings per share (in NIS)				
Earnings per share from operating profit	0.43	0.62	0.84	0.81
Profit from extraordinary items	-	0.01	-	-
Total	0.43	0.63	0.84	0.81
Diluted earnings per share (in NIS)				
Earnings per share from operating profit	0.43	0.62	0.83	0.80
Profit from extraordinary items	-	0.01	-	-
Total	0.43	0.63	0.83	0.80

(1) Reclassified.

(2) Share of NIS 0.1 par value each.

Certification

I, ELIEZER YONES, declare that:

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. (formerly: United Mizrahi Ltd.) ("the Bank") for the year 2009 ("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 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 the dates and for the periods presented 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 [(1)] and to the Bank's internal control of financial reporting [(1)] and:

   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, which are 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 have presented in this report 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 the fourth 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 internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Financial Statements Committees of the Board of Directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

March 21, 2010

E. YONES
President

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors".

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. (formerly: United Mizrahi Ltd.) (“the Bank”) for the year 2009 (“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 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 the dates and for the periods presented 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 (1) and to the Bank's internal control of financial reporting (1) and:
   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, which are 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 have presented in this report 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 the fourth 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 internal controls over financial reporting, to the Bank’s independent auditors, the Board of Directors and the Audit and Financial Statements Committees of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank’s ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal controls over financial reporting.

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

March 21, 2010

M. AVIV
Vice-president, Chief Accountant

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors".

Report of the Board of Directors and Management as to Internal Control of Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal control of financial reporting (as defined in Public Reporting Regulations with regard to "Report of the Board of Directors"). The Bank's internal control system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal control systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal control system over financial reporting as of December 31, 2009 based on criteria set forth in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2009, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2009 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Co. ,as noted in their report on page 215, which includes their unqualified opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2009.

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

Ramat Gan, March 21, 2010

Financial Statements

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Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited
Internal controls over financial reporting

We have audited the internal controls over financial reporting at Bank Mizrahi-Tefahot Ltd. (hereinafter: "the Bank") as of December 31, 2009 based on criteria set forth under the integrated framework for internal controls of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of the internal controls over financial reporting which is included in the attached report of the Board of Directors and management with regard to internal controls over financial reporting. We are responsible for our opinion of the Bank's internal controls over financial reporting, based on our audit.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (USA) as adopted by the Supervisor of Banks. In accordance with these standards, we are required to design and execute the audit so as to achieve a reasonable degree of certainty as to the existence of effective internal controls over financial reporting, in all material aspects. Our audit included: understanding the internal controls over financial reporting, evaluation of the risk of existence of any material weakness, testing and evaluation of the effective design and operation of internal controls based on the evaluated risk. Our audit also included additional procedures which we believed to be necessary under the circumstances. We believe that our audit provides a proper basis for our opinion.

A bank's internal controls over financial reporting comprise a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, and in accordance with directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which:

(1) apply to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of bank assets;

(2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the bank's receipts and expenditures are made exclusively in line with authorizations of the bank's management and Board of Directors;

(3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of bank assets which may materially impact the financial statements.

Due to their apparent limitations, internal controls over financial reporting may fail to prevent or discover a misrepresentation. Furthermore, the implications of any effectiveness assessment for future periods are subject to the risk of the controls being rendered inappropriate due to changes in conditions, or todeterioration in the level of compliance with policy or procedures.

We believe that the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2009 based on criteria set forth under the integrated framework for internal controls of the Committee of Sponsoring Organizations of the Tread way Commission (COSO).

We have also conducted an audit, in accordance with generally accepted auditing standards in Israel, including those prescribed in the Auditors' Regulations (Mode of Performance), 1973, and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks, of the Bank's enclosed balance sheets as of December 31, 2009 and 2008 and the consolidated balance sheets as of said dates, and the statements of profit and loss, statements of changes to shareholders' equity and statements of cash flow of the Bank and consolidated – for each of the three years in the period ended December 31, 2009, and our report dated March 21, 2010 includes our unqualified opinion on the aforementioned consolidated financial statements.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Tel Aviv, March 21, 2010

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying balance sheets of Mizrahi Tefahot Limited ("the Bank") as of December 31, 2009 and 2008, and the consolidated balance sheets as of such dates, and the statements of profit and loss, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries, whose assets included in consolidation constitute 8.22% and 9.52% of total consolidated assets as of December 31, 2009 and 2008, respectively, and whose profits from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 9.87%, 6.20% and 3.24% of total profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss for the years ended December 31, 2009, 2008 and 2007, respectively. Furthermore, we have not audited the financial statements of affiliates, the investment in which amounts to NIS 13 million and NIS 12 million as of December 31, 2009 and 2008, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above financial statements present fairly, in all material respects, the financial position - of the Bank and on a consolidated basis – as of December 31, 2009 and 2008, and the results of operations, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2008, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also conducted our audit, in accordance with standards set by the Public Company Accounting Oversight Board (USA) as adopted by the Supervisor of Banks, of the Bank's internal controls over financial reporting as of December 31, 2009 – based on criteria specified in the integrated framework of the Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 21, 2010 includes our unqualified opinion onthe internal controls over financial reporting.

Without qualifying our conclusion, we draw your attention to Note 19.D.12)-14) with regard to lawsuits filed against the Bank, including motions for class action status.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Tel Aviv, March 21, 2010

Balance sheet – consolidated and the Bank – as of December 31

Reported amounts (NIS in millions)

		Consolidated		The Bank	
	No te	2009	2008	2009	2008
Assets					
Cash and deposits with banks	2	11,011	11,038	8,564	10,475
Securities	3	7,643	9,259	5,466	5,742
Securities loaned or sold in repurchase agreements		307	12	307	12
Credit to the public	4	95,249	(1) 88,923	89,772	79,346
Loans to the Government	5	301	2	301	2
Investments in investees	6	12	17	1,604	1,428
Buildings and equipment	7	1,522	1,476	1,372	1,311
Other assets	8	2,394	4,159	2,302	4,065
Total assets		118,439	114,886	109,688	102,381
Liabilities and Shareholders' Equity					
Deposits from the public	9	95,021	91,779	86,487	82,142
Deposits from banks	10	1,899	1,867	6,396	2,792
Deposits from the Government		209	242	207	234
Securities loaned or sold in conjunction with repurchase agreements		-	972	-	972
Debentures and subordinated notes	11	8,166	6,837	4,825	4,430
Other liabilities	12	6,259	(1) 6,886	5,241	5,859
Total liabilities		111,554	108,583	103,156	96,429
Minority interest		353	351	-	-
Shareholders' equity	13	6,532	5,952	6,532	5,952
Total liabilities and shareholders' equity		118,439	114,886	109,688	102,381

(1) Reclassified. See Note 4.A.4).

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

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

Approval date:
Ramat Gan, March 21, 2010

Statement of Profit and Loss - Consolidated and the Bank

For the year ended December 31

Reported amounts (NIS in millions)

	Note	Consolidated			The Bank		
		2009	2008	2007	2009	2008	2007
Profit from financing operations before provision for doubtful debts	22	2,385	2,289	2,026	2,136	2,043	1,944
Provision for doubtful debts	4C	375	395	228	363	392	226
Profit from financing operations after provision for doubtful debts		2,010	1,894	1,798	1,773	1,651	1,718
Operating and other revenues							
Operating commissions	23	1,307	(1) 1,161	(1) 1,108	1,074	(1) 997	(1) 1,001
Gains from investments in shares, net	24	114	46	65	114	47	65
Other revenues	25	43	(1) 22	(1) 17	11	(1) 10	(1) 8
Total operating and other revenues		1,464	1,229	1,190	1,199	1,054	1,074
Operating and other expenses							
Payroll and associated expenses	26	1,630	1,273	1,169	1,446	1,130	1,108
Maintenance and depreciation of buildings and equipment		557	473	421	488	434	412
Other expenses	27	453	407	348	341	339	325
Total operating and other expenses		2,640	2,153	1,938	2,275	1,903	1,845
Pre-tax operating profit		834	970	1,050	697	802	947
Provision for taxes on operating profit	28	286	356	368	247	304	335
After-tax operating profit		548	614	682	450	498	612
Share in net after-tax operating profit (loss) of investees	6B	(1)	(1)	(1)	82	103	69
Minority interest in after-tax operating profit of subsidiaries		(15)	(12)	-	-	-	-
Net operating profit		532	601	681	532	601	681
After-tax profit (loss) from extraordinary items	29	(2)	1	227	(2)	1	227
Net profit		530	602	908	530	602	908

(1) Reclassified.

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

Statement of Profit and Loss - Consolidated and the Bank (continued)

For the year ended December 31

Reported amounts

	Note	2009	2008	2007
Earnings per share [1]	1.U. 30			
Basic earnings per share (in NIS)				
Earnings per share from operating profit		2.39	2.70	3.08
Profit from extraordinary items		(0.01)	0.01	1.03
Total		2.38	2.71	4.11
Diluted earnings per share (in NIS)				
Earnings per share from operating profit		2.38	2.68	3.03
Profit (loss) from extraordinary items		(0.01)	0.01	1.01
Total		2.37	2.69	4.04

(1) Share of NIS 0.1 par value each.

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

Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transac-- tions	Treasury shares	Total paid-up share capital and capital reserves	Total cumulative other profit (loss): Adjustments for presentation of securities available for sale at fair value	Total cumulative other profit (loss): Translation adjust-ments [2]	Net gain from cash flow hedges	Retained earnings	Dividends declared after balance sheet date	Total share-holders' equity
Balance as of January 1, 2007	1,881	72	-	1,953	65	(51)	-	3,094	-	5,061
Net profit for the year	-	-	-	-	-	-	-	908	-	908
Dividends paid	-	-	-	-		-	-	(400)	-	(400)
Benefit from share-based payment transactions	-	18	-	18	-	-	-	-	-	18
Related tax effect	-	8	-	8	-	-	-	-	-	8
Realized share-based payment transactions [5]	30	(30)	-	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	[4] (172)	-	-	-	-	58
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	[4] 115	-	-	-		(115)
Related tax effect	-	-	-	-	19	-	-	-	-	19
Dividends declared after balance sheet date	-	-	-	-	-	-	-	(75)	75	-
Balance as of January 1, 2008	1,911	68	-	1,979	27	(51)	-	3,527	75	5,557
Net profit for the year	-	-	-	-	-	-	-	602	-	602
Dividends paid	-	-	-	-	-	-	-	(75)	(75)	(150)
Benefit from share-based payment transactions	-	22	-	22	-	-	-	-	-	22
Related tax effect	-	(10)	-	(10)	-	-	-	-	-	(10)
Realized share-based payment transactions [5]	9	(9)	-	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	[4] (403)	-	-	-	-	33
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	[4] 218	-	-	-	-	(218)
Related tax effect	-	-	-	-	66	-	-	-	-	66
Net gain from cash flow hedges	-	-	-	-	-	-	78	-	-	78
Related tax effect	-	-	-	-	-	-	(28)	-	-	(28)
Balance as of January 1, 2009	1,920	71	-	1,991	(92)	(51)	50	4,054	-	5,952

(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 below.
(4) Reclassified.
(5) In 2008, 397,823 ordinary NIS .1 par value shares (2007 - 872,824 shares) were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS .1 par value shares (2007 - 1,938,771 shares) were issued to the President for exercise of options.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	Share capital and premium(1)	Capital reserve from benefit from share-based payment transac-tions	Treasury shares	Total paid-up share capital and capital reserves	Total cumulative other profit (loss): Adjustments for presentation of securities available for sale at fair value	Total cumulative other profit (loss): Translation adjust-ments (2)	Net gain from cash flow hedges	Retained earnings	Dividends declared after balance sheet date	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 March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Note 13 below.
(4) For details, see Note 13.D below.
(5) In 2009, 1,634,184 ordinary NIS .1 par value shares (2008 - 397,823 shares) were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 635,936 ordinary NIS .1 par value shares (2008 - 658,987 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 - Consolidated and the Bank

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Cash flows provided by current operations						
Net profit for the year	530	602	908	530	602	908
Adjustments to reconcile net profit to net cash generated by operating activities:						
Share in undistributed losses (profits) of investees, net	1	1	1	(82)	(103)	(69)
Minority interest in net after-tax operating profit of subsidiaries	15	12	-	-	-	-
Depreciation of buildings and equipment and amortization	213	181	163	196	172	161
Provision for doubtful debts	375	395	228	363	392	226
Net gain on sale of available-for-sale securities	(164)	(32)	(35)	(126)	(33)	(35)
Provision for impairment of available-for-sale securities	60	218	115	60	218	115
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(7)	(3)	2	(7)	(3)	2
Gain from realized investments in investees	-	-	(3)	-	-	(3)
Net loss (gain) on sale of buildings and equipment	-	(2)	(21)	-	1	(11)
Reduction of cost of buildings designated for sale and of unused leased properties	2	(2)	17	2	(2)	17
Deferred taxes, net	(125)	54	152	(159)	65	152
Severance pay - decrease (increase) in excess of amount funded over liability	142	(4)	3	156	(18)	3
Benefit from share-based payment transactions	60	22	26	60	22	26
Bank's share in net profit from extraordinary items of subsidiaries	-	-	-	-	(1)	(38)
Minority interest in net profit from extraordinary items of subsidiaries	-	1	13	-	-	13
Gain from sale of provident fund operations, net	-	-	(218)	-	-	(199)
Deferred income, net	50	24	9	68	25	13
Net cash provided by current operations	1,152	1,467	1,360	1,061	1,337	1,281

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

Statement of Cash Flows - Consolidated and the Bank (continued)

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Cash flows provided by activities in assets						
Acquisition of securities available for sale	(5,354)	(6,725)	(10,238)	(3,401)	(4,969)	(10,238)
Proceeds on sale and redemption of securities available for sale	6,956	6,257	9,993	3,664	5,333	9,982
Deposits with banks, net	4,988	(4,359)	378	410	273	98
Securities held for trading, net	190	(339)	(52)	191	(354)	(52)
Securities loaned or sold in repurchase agreements, net	(295)	(7)	(5)	(295)	(7)	(5)
Loans to the public, net	(6,701)	(10,735)	(4,439)	(6,165)	(9,644)	(4,282)
Loans to the Government, net	(299)	1	1	(299)	1	1
Acquisition of newly consolidated subsidiary (Appendix A)	-	3,330		-	(419)	-
Merger with subsidiary	-	-	-	45	-	-
Acquisition of shares in investees, including owners' loans and capital notes	(2)	(2)	(12)	(358)	(11)	(50)
Proceeds from sale of investments in investees	-	-	23	-	-	23
Proceeds from sale of provident fund operations	-	-	364	-	-	333
Acquisition of buildings and equipment	(257)	(274)	(206)	(242)	(249)	(203)
Proceeds from sale of buildings and equipment	5	15	138	2	6	120
Dividend received from investees	-	-	-	15	205	210
Other assets, net	1,882	(1,064)	(677)	1,919	(1,077)	(625)
Net cash provided by activities in assets	1,113	(13,902)	(4,732)	(4,514)	(10,912)	(4,688)

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

Statement of Cash Flows - Consolidated and the Bank (continued)

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Cash flows provided by activities in liabilities and shareholders' equity						
Deposits from the public, net	3,242	7,311	2,056	2,918	5,889	2,852
Deposits from banks, net	32	(1,904)	679	3,579	(976)	686
Deposits from the Government, net	(33)	(43)	(278)	(31)	(41)	(276)
Issuance of debentures and subordinated notes	1,646	745	1,259	501	533	490
Redemption of debentures and subordinated notes	(317)	(97)	(137)	(149)	(160)	(157)
Securities loaned or sold in conjunction with repurchase agreements	(972)	972	-	(972)	972	-
Other liabilities, net	(826)	1,579	487	(890)	1,597	484
Share buy-back	(76)	-	-	(76)	-	-
Dividends paid to shareholders	-	(150)	(400)	-	(150)	(400)
Dividends paid to minority shareholders in subsidiary	-	-	(12)	-	-	-
Net cash provided by (used for-) activities in liabilities and shareholders' equity	2,696	8,413	3,654	4,880	7,664	3,679
Increase (decrease) in cash	4,961	(4,022)	282	1,427	(1,911)	272
Balance of cash at beginning of year	4,445	8,467	8,185	6,542	8,453	8,181
Balance of cash at end of year	9,406	4,445	8,467	7,969	6,542	8,453

Statement of Cash Flows - Consolidated and the Bank (continued)

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
Appendix A - Acquisition of newly consolidated subsidiary				
Assets and liabilities of consolidated subsidiary, at acquisition date:				
Assets (excluding cash of NIS 3,749 million)	-	(6,204)	-	(419)
Liabilities	-	9,297	-	-
Rights of external interested parties	-	328	-	-
Goodwill	-	(91)	-	-
Cash flows used for acquisition of newly consolidated subsidiary	-	3,330	-	(419)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Appendix B - Non-cash Transactions						
1) Acquisition of buildings and equipment	9	5	30	6	5	30
2) Investment in shares	-	37	-	-	37	-

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

Notes to financial statements as of December 31, 2009

Note 1 - Reporting Principles and Accounting Policies

A. General

1) The financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.
2) The notes to the financial statements refer to the financial statements of the Bank, as well as to the consolidated financial statements of the Bank and its subsidiaries, unless a note explicitly states that it refers only to the statements of the Bank, or to the consolidated statements.
3) Definitions:

"Subsidiaries"	Companies in which the bank holds, directly or indirectly, over 50% of voting rights, or may appoint over half of their board members, or over which the Bank maintains effective control and whose financial statements are consolidated with the Bank's.
"Affiliates"	Entities in which the Group has material influence over financial and operational policy, but over which it has no control. Investment in affiliates is included on the financial statements using the equity method.
"Investees"	Subsidiaries and affiliates.
"Overseas affiliates"	Representatives, agencies, branches or subsidiaries of the Bank outside Israel.
"Functional currency"	The currency of the major economic environment in which the Bank operates. Usually, this is the currency of the environment in which a corporation generates and expends most of the cash.
"Reporting currency"	The currency in which the financial statements are presented.
"Adjusted amount"	The historical nominal amount that was adjusted to the CPI for December 2003, in conformity with the opinions of the Institute of Certified Public Accountants in Israel.
"Reported amount"	An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date. After the transition date, the amounts are deducted in historical nominal values, in adjusted amounts at the transition date or a combination of historical nominal values and adjusted amounts as of the transition date, as applicable.
"Cost"	Cost in reported amount.
"Related parties"	As defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.
"Interested parties"	As defined in Section 1 of the Securities Act.
"Controlling shareholder"	As defined in the Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder), 1996.

Note 1 - Reporting Principles and Accounting Policies (continued)

B. Financial statements in reported amounts

Reported amounts

1) The Bank prepares its financial statements on the basis of the historical cost convention, adjusted for changes in the Israeli Consumer Price Index through December 31, 2003. Pursuant to Accounting Standard 12 and Accounting Standard 17, as of January 1, 2004 financial statements are no longer adjusted. The aforementioned adjusted amounts, included in the financial statements as of the transition date, serve as basis point for nominal financial reporting. The additions made after the transition date are included in nominal values.

2) Balance sheet -

   a) Non-monetary items (mainly – buildings and equipment) are stated at reported amounts.
   Non-monetary items do not necessarily represent realization value or updated economic value.

   b) Monetary items are stated in the balance sheet at their nominal values at the balance sheet date.

3) Statement of profit and loss -

   a) Income and expenses that relate to non-monetary items or to balance sheet provisions are derived from the change between the reported amount in the opening balance and the reported amount in the closing balance.

   b) The remaining items on the statement of profit and loss are stated at nominal value.

4) Comparative figures in the financial statements are included in reported amounts.

c) Translation of the financial statements of overseas affiliates

In accordance with the directives of the Supervisor of Banks, the Bank’s branches overseas are classified as an “integrated unit” of the Bank. Accordingly, their financial statements are translated into Israeli currency as . Starting in 2008, subsequent to application of Standard 13 (Revised) "Impact of Changes in Foreign Currency Exchange Rates" and to directives of the Supervisor of Banks, an overseas affiliate of a banking corporation which, based on previous terminology, had been classified by the banking corporation as an integrated unit, is now classified as a foreign operation whose functional currency is the same as that of the banking corporation. The change in terminology, pursuant to directives of the Supervisor of Banks, has no impact on the Bank's financial standing and operating results.

1) Monetary items were translated at the exchange rate prevailing at the balance sheet date.

2) Non-monetary items – up to the transition date, these were translated using historical exchange rates on the acquisition date; after the transition date they were adjusted for the changes in the general purchasing power of the Israeli currency until December 31, 2003. Additions and disposals of non-monetary assets after the transition date are stated at reported amounts, according to the exchange rate prevailing on the acquisition date.

3) Revenues and expenses are translated using average exchange rates over the reported period.

Note 1 - Reporting Principles and Accounting Policies (continued)

4) Differences derived from the translation of the financial statements, as aforesaid, were included in the statement of profit and loss. Until 1994, overseas consolidated companies were classified as “autonomous units”. Differences between the investment unit, adjusted for the CPI, in overseas consolidated companies, as included in the Bank’s accounts, and the Bank’s holding in the equity of the company, translated using the exchange rate on the reporting date, were included in “translation adjustment of autonomous overseas operating units” under shareholders’ equity.

D. Foreign currency and linkage

1) Assets (other than investments in investees, securities, buildings and equipment and liabilities denominated in or linked to foreign currency or linked to the Consumer Price Index) are included in the financial statements as follows:

   a) In foreign currency or linked thereto - at the representative exchange rates published by the Bank of Israel on the balance sheet date or a more appropriate date, in accordance with the terms of the transaction.

   b) Fully linked to the Consumer Price Index – using the index known on the balance sheet date or another appropriate index, as set forth in agreements.

2) Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined.

3) Income and expenses in foreign currency were translated for inclusion in the statement of profit and loss at current representative exchange rates. Exchange rate differentials with respect to monetary items are the difference between the amortized cost in the functional currency at the start of the period, plus accrued interest and payments during the period, and the amortized cost in foreign currency, translated using the exchange rate at the end of the period. Exchange rate differentials on assets and liabilities are included in the appropriate statement of profit and loss items.

4) Information regarding the CPI and the representative exchange rates and changes there to follows:

	As of December 31,			Change in %		
	2009	2008	2007	2009	2008	2007
CPI for December (points)	105.2	106.4	102.5	3.9	3.8	3.4
CPI for November (points)	105.2	106.5	101.9	3.8	4.5	2.8
Exchange rate of USD (in NIS)	3.775	3.802	3.846	(0.7)	(1.1)	(9.0)
Exchange rate of Euro (in NIS)	5.442	5.297	5.659	2.7	(6.4)	1.7

E. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles occasionally requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses in the report periods. Actual results could differ from these estimates.

Note 1 - Reporting Principles and Accounting Policies (continued)

When formulating accounting estimates used in preparation of Bank financial statements, Bank management is called upon to make assumptions with regard to circumstances and events involving significant uncertainty. When exercising its judgment in making such estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in line with circumstances of each assessment. The assessments and the assumptions underlying them are reviewed regularly. Changes in accounting estimates are recognized in the period in which estimates are revised and in all affected future periods.

F. Statement of cash flows

1) The statement of cash flows presents the net cash flows from operations related to both assets and liabilities, except for changes in securities that are not securities held for trading, in non-monetary assets and in subordinated notes.
2) Cash includes cash and deposits with banks with an original period to maturity not exceeding three months.

G. Investments in investees

1) Principles of consolidation
   a) The financial statements of the Bank alone include the financial statements of wholly-owned and controlled companies, most of whose assets are used by the Bank, and most of whose services are provided to the Bank.
   b) The consolidated financial statements include the audited financial statements of the Company and of its subsidiaries. Financial statements of subsidiaries are included on the consolidated financial statements from the date control is achieved and through the date control is terminated. The accounting policies of subsidiaries match the accounting policies adopted by the Bank.
   c) Material inter-company balances and transactions among consolidated Group companies have been eliminated in the consolidated financial statements.
2) Principles of the application of the equity method -
   a) In the Bank's financial statements, investments in the shares of investees, and in the consolidated financial statements, investments in the shares of affiliates, are presented using the equity method, on the basis of their audited financial statements.

      The share of these companies' financial results is presented under "after-tax operating profit (loss)". After-tax profit (loss) from extraordinary items of investee companies is included under the Bank's "After-tax profit (loss) from extraordinary items".
   b) With respect to Accounting Standard No. 15 – "Impairment of Assets" – see S. below.

Note 1 - Reporting Principles and Accounting Policies (continued)

3) The excess acquisition cost of investment in a subsidiary over the Bank's share of the fair value of its identifiable assets (including intangible assets), net of the fair value of its identifiable liabilities (after tax attribution) upon the acquisition date constitutes goodwill. Goodwill arising from the acquisition of investments in investees, including goodwill with respect to companies merged into the Bank, is amortized over a 10-year period and is presented under Other Assets. In the event of an expected loss of economic benefit, the goodwill is written-off in full. Goodwill amortization is recorded under Other Expenses.

4) Mutual balances within the Group and unrealized revenues and expenses arising from mutual transactions have been cancelled in the course of preparing the consolidated financial statements. Unrealized gains from transactions with affiliates have been cancelled against the investment, in accordance with Group rights in these investments. Unrealized lossed have been cancelled in the same manner as the cncellation of unrealized gains, provided that the loss did not reflect evidence of impairment.

H. Securities

1) Investments in securities were classified into three categories, as follows:

   a) Debentures held to maturity - debentures that the Bank has the intention and ability to hold until maturity date. These debentures are presented at their nominal value plus accrued interest and linkage or exchange rate differentials, plus or minus the discount or premium component generated upon acquisition and not yet amortized. Income from bonds held to maturity is recorded to the statement of profit and loss on the accrual basis.

   b) Securities held for trading - securities that were purchased or are held essentially for the purpose of selling them during the near term. These securities are included in the balance sheet at their fair value on the reporting date. Unrealized gainss or losses from the adjustment to fair value are charged to the statement of profit and loss.

   c) Securities available for sale – securities not classified under the two preceding categories. Securities available for sale are presented on the balance sheet at fair value. Unrealized gains or losses from adjustment to fair value, net of tax effect, are charged directly to a separate item under shareholders' equity and transferred to the statement of profit and loss upon realization. For securities which include embedded derivatives – see section M.4) below.

   d) Investment in shares is presented in the portfolio available for sale at fair value and as mentioned in section c) above. Shares having no available fair value, including shares of a credit card company received in conjunction with a long-term contractual agreement, are presented at fair value as of the date they were received – which does not exceed their cost – and net of provision for impairment which is not of a temporary nature, which is charged to the statement of profit and loss. Dividends received from an investment in shares available for sale, originating in the profits of the distributing company prior to the acquisition date, were charged to the statement of profit and loss.

Note 1 - Reporting Principles and Accounting Policies (continued)

e) When a security is other than temporarily impaired, its cost is written down to its fair value and serves as the new cost basis. The accumulated loss related to an available-for-sale security, previously charged to a separate item under shareholders' equity under Other Comprehensive Income, is transferred to the Statement of Profit and Loss when its impairment is other than of a temporary nature.. Appreciation in subsequent reported periods are charged to a separate item under shareholders' equity under Accumulated Other Comprehensive Income, and are not recognized on the Statement of Profit and Loss (using the new cost basis). For details of determination of fair value and provision for impairment, see section h)2) below.

f) Bank investments in venture capital funds are stated at cost net of any other-than-temporary impairment loss. Gain from venture capital investments is recognized on the Statement of Profit and Loss upon realization of the investment.

g) The cost of realized securities is calculated on FIFO basis.

2) Fair value and provision for impairment of securities

The fair value of all securities traded on the stock exchange in Israel is based on sale prices determined as of the balance sheet date. Most of the foreign-traded securities are revalued using quoted sale prices on active markets obtained from external sources, including quotes from well-known data systems, such as Bloomberg.

The fair value of remaining foreign securities, which have no active market, are determined using internal valuation methods based on objective data, to the extent available with regard to securities and on adjustments required for calculation of the fair value.

The fair value of all Bank investments in securities undergoes validation by a professional entity designated for this purpose at the Bank, which is not party to calculation of the fair value. Validation is made with assistance from an external professional consultant specializinged in development and validation of models for calculating fair value of financial instruments. Validation is conducted by reviewing the model assumptions and parameters; reviewing the model methodology and the application thereof; and independently reviewing the model in comparison with other models, to the extent possible.

The nature of impairment in the portfolio is reviewed quarterly. The aforementioned review is conducted for each series of securities separately. Impairment may arise from two types of events:

a) Global events – changes to general market risk factors due to macro-economic change.

b) Specific events – impaired financial standing of the issuer.

Note 1 - Reporting Principles and Accounting Policies (continued)

The decision as to whether impairment of an investment in securities is of a temporary nature, is also based on one or more of the following parameters:

a) The length of the period in which the security value is lower than its revaluated acquisition cost.

b) Extent of impairment out of total investment.

c) Assessment of the issuer's financial standing and ability to meet their obligations, based, inter alia, on rating of securities by international agencies and on review of safety cushions and securities which back the investment.

d) Assessment of the time at which market prices which impact the investment value are expected to return to their original level.

e) The Bank's intention and ability to hold the securities for a sufficient period of time for their value to return to original cost, taking into account, inter alia, considerations of position management and liquidity.

I. Transfer and service of financial assets and discharge of liabilities

1) Starting on January 1, 2007, the Bank applies the public reporting directive, "Transfers and Service of Financial Assets and Discharge of Liabilities". This directive adopts the measurement and disclosure principles prescribed in American Standard No. 140 relating to all transfer and service transactions of financial assets and the discharge of liabilities, including: repurchase and lending of securities; sale of loan portfolios, securitization of financial assets; associations and partnerships in credit; bank acceptances and participation in their risk; discount agreements.

The provisions adopt the principles prescribed in American Standard 140 for distinguishing between transfers of financial assets that will be recorded as a sale and between other transfers. The principle was adopted, whereby a transferred financial asset will be stated in the balance sheet of the party that controls it, whether it is the transferor or recipient of the asset. The provisions prescribe control tests relating to repurchases, lending of securities, securitization of loans, sale and participation in loans.

The provisions also adopt the measurement and disclosure principles prescribed in Standard 140 relating to the measurement of financial assets, which according to their contractual terms, may be discharged in early repayment, so that the holder does not cover his investment.

The new directive applies to the lending of securities, repurchase of securities, securitization of financial assets, other transfers of financial assets, providing of services to financial assets and discharge of liabilities effected commencing January 1, 2007.

Note 1 - Reporting Principles and Accounting Policies (continued)

Pursuant to the directive, recorded in “other securities” in the Bank’s balance sheet will be securities that the Bank borrowed, which meet the conditions provided in the directive for transfer of control, including securities that were borrowed from the borrowing reserve of the Ministry of Finance. Securities held by the Bank which were loaned to others while fulfilling the conditions for transfer of control, will not be recorded in the balance sheet. The gain or loss from their sale will be recognized in the statement of profit and loss, and new assets or liabilities representing the rights or obligations that the Bank retained in the borrowed securities will be recorded in the balance sheet.

The securities that were loaned or borrowed, or securities sold or purchased in conjunction with REPO agreements, in all cases with receipt/payment of the full consideration for them, and which do not meet the conditions for transfer of control, are presented separately in the Bank’s balance sheet, as part of the item "securities", and the consideration for them is recorded in the balance sheet as “secured debts”: the consideration received for securities loaned or sold under REPO is recorded as “securities loaned or sold in repurchase agreements”, on the liabilities side, and the consideration paid for the securities borrowed or purchased under REPO is recorded as “securities borrowed or purchased in repurchase agreements” on the asset side.

2) The borrowing and lending of securities between the Bank's customers, brokered by the Bank, executed as credit transactions with no proceeds received for the securities borrowed, is stated in loans to the public and deposits from the public, or deposits from banks, respectively.

3) Transactions in securities are recorded based on the date they clear.

4) In May 2009, the US accounting standard FAS 166 "Accounting for Transfers of Financial Assets" (an amendment of FAS 140) was published. FAS 166 eliminates the principle of Qualified Special Purpose Entity (QSPE), sets more stringent conditions for accounting treatment as sale upon partial transfer of financial assets, provides clarifications of conditions for disposal of financial assets, amends measurement rules upon initial recognition of maintained rights, and eliminates re-classification rules for guaranteed mortgage securitization.

Concurrently, US standard FAS 167 "Consolidation of Variable Interest Entities" was published, which requires a review of the consolidation requirement for all entities previously classified as Qualified Special Purpose Entities (QSPE), in accordance with new rules set forth in the standard. The standard updates criteria used for identifying Variable Interest Entities (VIE), modifies the approach used in determining the main beneficiary (from an approach based on quantitative tests to a qualitative test for identifying control of financial rights) and requires reporting entities to more frequently review the duty to consolidate the VIEs. Furthermore, FAS 166 and FAS 167 stipulate new disclosure requirements to be included on annual and interim financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

In accordance with the Supervisor of Banks' circular dated September 6, 2009, banking corporations are required to apply the rules set forth in FAS 166 and in FAS 167, including disclosure requirements stipulated there by, starting on January 1, 2010 in accordance with transition provisions set forth in these standards. Bank management estimates that the expected impact of initial application of FAS 166 and of FAS 167 on Bank financial statements is not material

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J. Buildings and equipment

1) Buildings and equipment are stated at cost, net of depreciation, calculated using the straight-line method over their estimated useful life. Pursuant to provisions of Accounting Standard No. 27 – “Fixed Assets” ("the Standard"), each part of any fixed asset item having a cost which is material in comparison to the total item cost, is dsepreciated separately.

   The Standard allows an entity to choose between measurement of the fixed asset at cost, in which the asset is stated in the books at its depreciated cost net of impairment losses that accrued, and the method of revaluation, in which the fixed asset is stated at its revalued fair value, net of depreciation and accrued impairment losses. According to the directives of the Supervisor of Banks, a banking corporation shall only apply the cost method.

   The Standard provides among its provisions, that a fixed asset item will be measured on the first date of recognition at total cost, which includes, in addition to the purchase cost of the asset, all the costs that can be directly attributed to bringing the item to the required location and condition, so that it can be operated in the manner that management intended. The Standard defines, except in the specified exceptions, the principle of fair value measurement of the purchase cost of a fixed asset in consideration for non-monetary assets.

2) Assets designated for sale were stated at their value in reported amounts, which does not exceed the estimated sales prices.

3) Certain costs (mainly salaries and related expenses) related to the independent development of computer software for the Bank's own use, are allocated to the different projects. These costs are capitalized, in accordance with Accounting Standard no. 30, only if the development cost may be reliably measured, the software is technically and commercially feasible, the Bank is expected to derive future economic benefits and the Bank has the intent and sufficient resources to complete development and to use the software. Cost of software recognized as an intangible asset is presented on the financial statements under "Buildings and equipment" at cost, net of accumulated amortization and loss from impairment.

Note 1 - Reporting Principles and Accounting Policies (continued)

4) See O. below with respect to Standard No. 15 – “Impairment of Assets”. Provision for impairment of a non-temporary nature of an investment in buildings and equipment, or cancellation of a provision for such impairment, is recorded under depreciation expense. As for an asset for which a provision for impairment was recorded prior to the Standard's effective date, such provision is recorded in the section “net after-tax loss from extraordinary operations”.

K. Set-off of financial instruments

Financial assets and liabilities are set off when there is an enforceable legal right of set-off between them and intent to set-off the amounts on the maturity dates. Assets and liabilities with two different counter-parties will only be set off subject to an additional condition: existence of an agreement between the three parties which clearly stipulates the Bank's set-off rights with regard to said liabilities. Accordingly, designated deposits for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss in the item “operating commissions”.

L. Contingent liabilities -

The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.

2) Reasonably possible: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision was made in the financial statements only for that part of the claim amount for which the probability of realization of damage to the Bank is defined as Probable, if any.

3) Remote: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 19 D for disclosure of material claims (over 1% of equity, excluding interest and expenses).

Note 1 - Reporting Principles and Accounting Policies (continued)

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

M. Employee rights

Pension and severance pay liabilities are covered by regular deposits to funds and by appropriate provisions. The financial statements included all of the liabilities for employee rights, including appropriate provisions for severance pay and for voluntary retirement programs, which are recorded in accordance with the law, agreement, custom and management's expectations. The future contractual liabilities for pension and severance are calculated based on regular actuarial consultation, based on recommendations of the Supervisor of Insurance. Also, see Note 16 below.

N. Share-based payment transactions

In accordance with the directives of the Supervisor of Banks, starting on January 1, 2006 the Bank applies Accounting Standard no. 24 "Share-Based Payment", published by the Israeli Accounting Standards Board.

The fair value of benefits arising from allotment of stock options to employees is calculated using the Black & Scholes model. Expenses with respect to the value of the benefit and with respect to the additional benefit value arising from extension of the option term, are charged over the vesting period of the option warrants to payroll expenses on the statement of profit and loss, against a capital reserve in shareholders' equity with respect to benefit from allotment of options to employees. Simultaneously, the Bank records deferred taxes for the expected tax benefit upon option exercise by employees, based on the naive value of the options as of the reporting date. The tax benefit with respect to employee gain from option exercise, up to the original fair value of the options, is recognized on the statement of profit and loss. Above this, the benefit is charged to a capital reserve from benefit with respect to allotment of stock options to employees.

Salary expenses include updates to the provision for wage tax payment expected upon option exercise. The provision for payroll tax is updated in accordance with changes in the naive value of the options.

For details of share-based payment transactions, see Note 16.A below.

Note 1 - Reporting Principles and Accounting Policies (continued)

O. Derivative instruments and hedging activities

1) The Bank trades in financial derivatives, including currency and interest contracts. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risks, including basis and interest risk – risks to which the Bank is exposed in its day-to-day activities.

2) The derivatives are recorded in the Bank's balance sheet in other assets or other liabilities, as applicable, at their fair value. Changes to fair value of derivatives, other than derivatives used as cash flow hedges, are recognized on the statement of profit and loss.

3) It is possible that the Bank will enter into a contract, which by itself is not a derivative, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative instrument, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   A detached embedded derivative is stated in the balance sheet together with the host contract. When the host contract is measured at fair value and changes in its fair value are reported currently in the statement of profit and loss, or when the Bank is unable to reliably identify and measure the embedded derivative for the purpose of detaching it from the host contract, the entire contract is recorded in the balance sheet at fair value.

4) In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts a policy of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. This policy was adopted for structured securities in the available-for-sale portfolio.

5) The Bank designates certain derivates as fair value hedges or as cash flow hedges. The Bank documents in writing all of the hedging relationships between the hedging financial derivatives and the hedged items, as well as the objective and strategy of the management of risk through the creating of a hedge transaction. The documentation includes specific identification of the asset designated as the hedged item and states the manner in which the hedging instrument is expected to hedge the risk related to the hedged item. The Bank estimates the effectiveness of the hedging relationship at the inception of the hedge and continuously, in accordance with its risk management policies. Based on the above, a determination is made as to whether the derivative qualifies as a hedge in accordance with public reporting directives.

Note 1 - Reporting Principles and Accounting Policies (continued)

6) Changes in the fair value of an item hedged by a fair value hedge using a derivative that meets the above conditions, arising from changes in the specified risk factors, are recorded currently to the statement of profit and loss, concurrent with the changes in the fair value of the hedging derivative.

   Changes in the fair value of a derivative which qualifies as a cash flow hedge, which arise from changes in the risk factor being hedged (which impacts the cash flows resulting from the hedged instrument), are recorded to capital reserve from cash flow hedging, under shareholders' equity.

7) The Bank stops hedge accounting henceforth, when:

   a) It is determined that a hedge is no longer effective for offsetting the changes in the fair value or cash flow of the hedged item, as the case may be;

   b) The derivative expires, is sold, cancelled or realized;

   c) Management revokes the designation of the derivative as a hedging instrument.

   When a fair value hedge is discontinued because it is determined that the hedge no longer qualifies as an effective fair value hedge, the derivative will continue to be recorded in the balance sheet at its fair value, but the hedged asset or liability will no longer be adjusted for changes in fair value. When a cash flow hedge is discontinued because it is determined that the hedge no longer qualifies as an effective cash flow hedge, changes in the fair value of the derivative since the date of discontinuation of hedging are recorded in the statement of profit and loss.

8) Derivative instruments with an active market have been valued at market value, and if multiple active markets exist on which the instrument is traded, the valuation was made using the most active market. In valuating derivative instruments not traded on an active market, the Bank applies FSP FAS 157-3 "Determining the Fair Value of an Financial Asset When the Market for That Asset is not Active". Accordingly, when determining the fair value of financial instruments not traded on an active market, the Bank sometimes makes a significant exercise of judgment, including a review of whether the transactions were made under pressure and duress.
   In cases when there is no available price quote on an active market, fair value is determined using generally accepted pricing models, based on an independent and validated system at the Bank, or based on valuations obtained from experts in valuation of financial instruments. The valuation methods involve use of various parameters, such as interest rate curves, exchange rates and standard deviations, and make use of assumptions with regard to different factors.

Note 1 - Reporting Principles and Accounting Policies (continued)

P. Basis of recognition of income and expenses

1) Income and expenses are included on the accrual basis.

2) Income and expenses from securities held for trading and derivative instruments are included at the changes in fair value of the related balance sheet item. See section F.1)d) above regarding the dividends received from an investment in shares available for sale. Dividend income is recognized on the effective date.

3) Delinquency interest and amounts of provisions made for housing loans are recorded in the statement of profit and loss upon actual collection. See also section P.3) below.

4) Interest supplement from the State Treasury to compensate for the difference in interest on housing loans given to borrowers eligible for benefits is recorded in the statement of profit and loss over the period of the loans, using the uniform yield basis.

5) Revenues from commissions received due to early loan repayment after deduction of the proportionate share related to financial capital, which is immediately recognized as revenue are recorded to the statement of profit and loss. This income is recorded mainly on a straight-line basis over three years from the payment date.

6) Interest expenses on deposits, in which the customer is given a graduated interest rate according to the period of the deposit, are charged to the statement of profit and loss over the deposit term, according to the effective interest rate for the deposit.

7) Expenses for issuance of debentures and subordinated notes, as well as premium and discount, are amortized over the term of the debentures or subordinated notes, taking into account the balances in circulation.

8) Pursuant to Proper Conduct of Banking Business Directive no. 325 “Management of Credit Facility in Current Accounts", the Bank does not record to the statement of profit and loss any interest income on deviations arising in accounts classified as problem accounts, until the balance returns to within limits of the overall credit facility. When there is a deviation in the current account, the Bank considers the required classification of the debts, in accordance with the directives of the Supervisor of Banks.

Note 1 - Reporting Principles and Accounting Policies (continued)

Q. Provision for doubtful debts

1) The financial statements include appropriate provisions for debts, the collection of which is in doubt.

   The provisions are made on the basis of estimates by the managements of the Bank and its subsidiaries regarding possible losses in the loan portfolio - including off-balance-sheet debts. Managements' estimates take into account the risk inherent in the loan portfolio, the scope and quality of the information available to management on the debtor, its business activities, how it meets its obligations, and the value of the collateral held.

2) The specific provision for housing loans is calculated, pursuant to a directive of the Supervisor of Banks, by extent of arrears, with the amount of the provision increasing the longer the arrears. With respect to housing loans above NIS 873 thousand, housing loans that are not repaid in monthly or quarterly payments and housing loans for which the existing specific provision exceeds the amount of the provision by extent of arrears, the provision is made on a specific basis and not by extent of arrears.

3) A provision for doubtful debts made by extent of arrears is reduced upon receiving proceeds from loan repayment or sale of the pledged asset. Therefore, repayment of a debt in arrears after the balance sheet date, or realization of the pledged asset for which payments were received as debt repayment subsequent to the balance sheet date, do not reduce the provision by extent of arrears in the reported period. Furthermore, it is not possible to reduce such provisions for loans in which the Bank may, but is not required, to make provisions by extent of arrears by changing the provision policy to a policy of specific provisions.

4) Debts are written off only after all legal and other proceedings for their collection have been exhausted, and it is evident that there is no real prospect to collect them.

5) The financial statements include a general provision and a supplementary provision for doubtful debts that relate to the credit portfolio of the Bank Group in Israel. In accordance with the directives of the Supervisor of Banks, the supplementary provision for bad debts is calculated based on the quality of the customer loan portfolio, the concentration of debts from an industry, and other risk characteristics. These directives also require banks to maintain a general provision of 1% of total credit to the public as of December 31, 1991. Beginning from January 1, 2005, the adjustment of the general provision to the CPI was discontinued.

Note 1 - Reporting Principles and Accounting Policies (continued)

R. Taxes on income

1) The Bank and its subsidiaries implement a method of applying taxes for differences in timing of charging certain income and expenses between financial reporting and reporting for tax purposes. The utilization of deferred tax assets is contingent upon the existence of sufficient taxable income in the future. Management of the Bank and its subsidiaries believes that these taxes may be utilized in the future.

   Deferred taxes were calculated using the liability method, at the tax rates expected to be in effect when they are realized, based on the data available upon preparation of the financial statements.

   In accordance with the directives of the Supervisor of Banks, deferred taxes are not recorded with respect to the general, and the supplementary provisions for doubtful debts.

2) The earnings of certain investees may be subject to additional taxes if distributed by them as a dividend. No provision for tax is recorded for the profits of subsidiaries, when dividend distributions are not expected in the foreseeable future.

   The calculation of deferred taxes does not include taxes that would be imposed if the investments in investees were realized, if the intention is to hold them and not realize them. Deferred taxes are calculated on investments in investees earmarked for sale.

3) The provision for taxes on the income of the Bank and subsidiaries that are financial institutions for V.A.T. purposes includes profit tax levied on earnings under the Value Added Tax Law. The value added tax levied on the salaries of financial institutions is included in “salaries and related expenses”.

4) A deferred tax asset with respect to a right to offset tax carried forward is recognized when realization of said tax in the foreseeable future is certain. A deferred tax asset with respect to temporary differences is recognized when it is expected to generate tax savings in the period when the expense is to be recognized for tax purposes.

5) Tax expenses on profit from extraordinary operations, including on capital gains for tax purposes, are included in the item "after tax profit from extraordinary operations".

S. Impairment of Assets

The Bank applies the provisions of Accounting Standard No. 15 (Amended), which prescribes the accounting treatment and presentation required in the event of impairment of assets. Pursuant to this standard, if there is an indication of a decline in value of an asset, it is to be evaluated by comparing the book value of the asset to its recoverable amount.

Note 1 - Reporting Principles and Accounting Policies (continued)

The recoverable amount is the higher of the net sales prices of the asset and its useful value as determined by the present value of the future cash flows projected from use of the asset and its realization at the end of its life. If the carrying value of the asset in the balance sheet exceeds its recoverable amount, the Bank recognizes an impairment loss (and an allocation of deferred taxes), in the amount of the difference between the book value of the asset and its recoverable amount.

Assets of Bank headquarters do not generate separate positive cash flows. If there are indications of potential impairment of an asset belonging to Bank headquarters, the recoverable amount is determined for the Bank as a whole, from a viewpoint that headquarter assets serve all of the Bank's cash-generating indebtedness.

An impairment loss that was recognized (except for goodwill) will be revoked only if changes have occurred in the estimates used to determine the recoverable value of the asset, at the time an impairment loss was recognized.

In accordance with the directives of the Supervisor of Banks, Standard no. 15 does not apply to financial assets which require disclosure in a note on the fair value of financial instruments, including securities.

The main assets of the bank to which Standard no. 15 applies are:

1) Investments in affiliates - the recoverable amount is reviewed for each company separately, based on share prices on the stock exchange for a company whose shares are listed for trading, as well as on review of financial statements and forecasts for coming years for each company. The Bank reviews upon each balance sheet the existence of any indications of impairment of its investment in an affiliate. If such indication exists, the recoverable amount of the investment is estimated in accordance with provisions of the standard. If an impairment loss is recognized, in accordance with the standard, such loss is attributed to the entire investment. Impairment loss on the investment is also revoked upon evaluation of the investment as a whole.

2) Buildings and equipment - the recoverable amount is calculated per branch, by discounting cash flows expected from branch income and expenses, with reference, as the case may be, to an independent valuation of the realization value of the asset. For details of provision for impairment of buildings and equipment, see Note 7.

The Supervisor of Banks has adopted Clarification 10 published by the Israeli Accounting Standards Board in January 2009, with regard to accounting treatment of impairment of investment in an affiliate. Bank management estimates that application of the clarification has no material impact on the Bank's financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

T. Earnings per share

Earnings per share is calculated according to provisions of Accounting Standard no. 21 "Earnings per share", published by the Israel Accounting Standards Board. Basic earnings per share is calculated based on profit or loss attributable to holders of ordinary shares of the Bank, divided by the weighted average number of ordinary shares outstanding during the reported period. In order to calculate the diluted profit per share, the corporation will adjust the profit or loss attributable to the ordinary shareholders of the reporting entity, and the weighted average number of outstanding ordinary shares, for the effects of all the dilutive potential ordinary shares. .

Furthermore, pursuant to the standard, earnings per one share is presented.

For details with regard to earnings per share, see Note 30.

U. Segment reporting

An operating segment is a component of the banking corporation engaged in operations from which it may derive revenues and incur expenses, its operating results are regularly reviewed by management and by the Board of Directors for the purpose of making decisions about resource allocation and for assessing its performance, and separate financial information with regard to them is available. The format for reporting Bank operating segments was stipulated in public reporting directives by the Supervisor of Banks, and is based on client attributes.

V. Transactions with controlling shareholders and with corporations controlled by the bank

In December 2006, the Israel Accounting Standards Board published Accounting Standard No. 23 "Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" ("the Standard"). The Standard supersedes the Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder), 1996 - as adopted by the Supervisor of Banks.

The Standard prescribes that assets and liabilities for which a transaction was executed between the entity and its controlling shareholder, will be measured according to their value on the transaction date, and the difference between the fair value and the consideration prescribed in the transaction will be recorded to shareholders' equity. A positive difference will be offset against the retained earnings balance and a negative difference will be presented in a separate shareholders' equity item to be called "capital reserve from transaction between an entity and its controlling shareholder". The difference between the asset's fair value and its carrying amount at the transfer date will be recognized as profit or loss.

Note 1 - Reporting Principles and Accounting Policies (continued)

Furthermore, pursuant to Standard 23, a loan granted to a controlling shareholder or obtained from a controlling shareholder shall be presented, upon initial recognition in the entity's financial statements, as an asset or liability, as the case may be, at fair value, with the difference between the amount of the loan received or granted and its fair value upon initial recognition being charged to shareholders' equity. Subsequent to initial recognition, the loan shall be presented in the entity's financial statements at amortized cost, applying the effective interest method, except where presentation at fair value is called for in accordance with generally accepted accounting principles.

Standard 23 applies to transactions between an entity and its controlling shareholder transacted after January 1, 2007, as well as to loans granted to or obtained from the controlling shareholder prior to the effective date of Standard 23, which is effective as of the date of its publication.

As of the publication date of these financial statements, the Supervisor of Banks has yet to issue a final directive as to application of the Standard. Since transactions between the Bank and its controlling shareholder are transacted at market prices, even should the Standard be applied to banking corporations, its impact on the Bank's financial statements should not be material.

W. Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)”

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 this regulations of this Law, will prepare their financial statements in conformity with the IFRS Standards, 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 circular concerning "IFRS-based reporting by banking corporations and credit card companies in Israel", which stipulate the anticipated manner of adoption of IFRS standards by banking corporations and credit card companies.

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

- For subjects outside the core banking business - starting on January 1, 2011. From this date onwards, banking corporations would be required to update the accounting treatment for these subjects on a regular basis, in accordance with transition provisions in new international standards published with respect to these issues, and in accordance with clarifications to be provided by the Supervisor of rhe Banks.

Note 1 - Reporting Principles and Accounting Policies (continued)

- For subjects within the core banking business - starting on January 1, 2013. The Supervisor of Banks intends to make a final decision on this issue during 2011. The final decision will be determined considering the schedule set in the US and the progress in the convergence process between international and American standards bodies.

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 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 subjects 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 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, 2009, the Supervisor of Banks issued a circular in which it adopted 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 a 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.
IAS 16 on fixed assets.
IAS 40 on investment property.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 of material issues in the standards or interpretations, 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 for US banks which specifically apply to these issues.
- In instances 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 instances 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 instances where the international standard makes reference to definition of a term defined in the public reporting directives, the reference to the definition in the directives shall replace the original reference.

The Bank will apply the aforementioned international financial standards and IFRIC interpretations related to application of these 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 stipulated in those 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 starting date and transition provisions to be determined 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 from their initial application.

Note 1 - Reporting Principles and Accounting Policies (continued)

X. Measuring 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 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 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 so as 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. For other debts, the banking corporation may decide whether to make an individual assessment. The individual provision for credit losses will be estimated based on expected future cash flows, discounted using the original effective rate for the debt or, if the debt is conditional upon collateral or when the banking corporation determined that seizure of an asset is probable, based on the fair value of the collateral provided to secure that credit.

"A specific provision for credit loss using group estimate" would be applied for large, homogeneous groups of small debts (whose balance is below NIS 1 million) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The specific provision for credit losses from debts based on group estimate, except for loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, is to be calculated based on rules set forth in USA Accounting Standard FAS 5: "Accounting for Contingencies" ("FAS 5"), using statistical models which take into consideration the rate 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 srtipulated by 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 circular stipulates, *inter alia*, that debts should be subject to accounting write-off. »Based on group estimates 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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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 and thereafter, 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 equity upon initial application.

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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 a specific provision for credit loss using group estimate, 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 take place only after the directive is applied. The model is included in the draft interim directive to be applied between 2010-2012 (hereinafter - "the transition period").
- 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 durectives. Starting on January 1, 2011, the term "troubled debt" shall be changed to "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 on that date.

Note 1 - Reporting Principles and Accounting Policies (continued)

In conjunction with the Bank's preparations for application of this directive, teams were formed and an external consultant has been hired to review required changes to Bank work processes, both in terms of credit management and processing of impaired debts, as well as in terms of accounting treatment and impact on its financial statements. As of the publication of these financial statements, development of the new system is complete and the testing phase has started. System testing is scheduled for completion in the first quarter of 2010. Concurrently, updating work processes have been completed for the most part, including reformulation of procedures and comprehensive training is being held for professional staff in preparation for implementation of this directive. In the third quarter of 2009, a pilot implementation was carried out in a small number of branches, aimed at testing operational aspects of the new system. Concurrently with implementation of these directives at the Bank, a parallel process takes place in subsidiaries, based on schedules set by the Bank.

System testing is to continue in 2010, and a comprehensive pilot shall be implemented at all Bank branches. At this stage of preparation for implementation of the directive, it is not possible to measure the increase in provisions for credit loss with respect to debt treated under group-based provision, including accounting write-offs, arising from implementation of the new directives.

Bank management estimates that the impact of implementation of the directives to debts treated under group-based provision is likely to be significant, relative to shareholders' equity. Furthermore, review of potential implications of these directives on major borrowers has revealed that initial implementation of these directives may increase the required provision for credit loss, although at this stage it is not possible to estimate whether this increase would be material.

Y. Fair value measurement and fair value option

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

FAS 157 defines fair value, and stipulates 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 set forth under Level 1. Level 2 data include quoted market data on active markets, or on non active markets, if they exist, or data derived from or based upon such observed market data.

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

Note 1 - Reporting Principles and Accounting Policies (continued)

FAS 157 expands the disclosure requirements for fair value measurements. Application of the standard 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 in 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 the cumulative effect on the opening balance of retained earnings as of January 1, 2011, which would be separately presented.

In order to determine the adjustment amount to be charged as the 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 banking corporation shall be required to review the valuation methods that it applies 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.

Bank management is reviewing the impacts of adoption of the standard on the financial statements. At this stage, the impact of the initial application of FAS 157 cannot be assessed.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 financial instruments at fair value 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 on the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option 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 stipulated 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 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 is not allowed.

A banking corporation may elect the fair value option for qualifying items which exist on the effective starting date. In such cases, the balances for these qualifying items on the balance sheet shall be adjusted to fair value, and the impact of initial remeasurement at fair value shall be recorded as an adjustment for the 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 upon said date. If the fair value option is elected for any such security upon the effective starting 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 the 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 result in doubt of the intention 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 cannot be assessed.

Note 2 - Cash and Deposits with Banks

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
Cash and deposits with central banks	9,299	5,997	7,509	5,494
Deposits with commercial banks	1,391	4,358	858	1,875
Deposits with special banking entities	321	683	197	3,106
Total cash and deposits with banks	11,011	11,038	8,564	10,475
Includes - cash, deposits with banks and deposits with central banks for an original period of up to three months	9,406	4,445	7,969	6,542

Note 3 - Securities – Consolidated

As of December 31, 2009

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Total cumulative other profit: Profit	Total cumulative other profit: Loss	Fair value (1)
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 (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
Of the Government of Israel	251	256	-	5	251
Of others	6	6	-	-	6
Total securities held for trading	257	262	(5) -	(5) 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. See Note 1.H.
(2) See Note 15.A-D for information on liens on securities held by the Bank.
(3) Includes shares for which 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 80 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: Details of results of trading in investments in debentures – see Note 22(e); details on results of trading in shares - see Note 24.

Note 3 - Securities – Consolidated (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Total cumulative other profit		Fair value (1)
			Profit	Loss	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	6,184	6,237	57	110	6,184
Of foreign governments (2)	515	513	2	-	515
Of others	1,740	1,840	5	105	1,740
Total debentures available for sale	8,439	8,590	64	215	8,439
Shares of others (3)(4)	380	332	55	7	380
Total securities available for sale	8,819	8,922	(5) 119	(5) 222	8,819

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
Of the Government of Israel	437	424	13	-	437
Of others	3	3	-	-	3
Total securities held for trading	440	427	(6) 13	(6) -	440
Total securities	9,259	9,349	132	222	9,259

(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. See Note 1.H.

(2) See Note 15.A-D for information on liens on securities held by the Bank.

(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of December 31, 2008, included in this item, amounts to NIS 276 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 51 million.

(4) Includes shares for which 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 88 million.

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

(6) Charged to statement of profit and loss.

Note: Details of results of trading in investments in debentures – see Note 22(e); details on results of trading in shares - see Note 24.

Note 3 - Securities – The Bank (continued)

As of December 31, 2009

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Total cumulative other profit		Fair value [1]
			Profit	Loss	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel [2]	3,907	3,936	18	47	3,907
Of foreign governments [2]	121	121	-	-	121
Of others	1,100	1,115	18	33	1,100
Total debentures available for sale	5,128	5,172	36	80	5,128
Shares of others [3]	86	84	2	-	86
Total securities available for sale	5,214	5,256	[4] 38	[4] 80	5,214

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [1]
2) Securities held for trading					
- Debentures					
Of the Government of Israel	250	255	-	5	250
Of others	2	2	-	-	2
Total securities held for trading	252	257	[5] -	[5] 5	252
Total securities	5,466	5,513	38	85	5,466

(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. See Note 1.H.
(2) See Note 15.A-D for information on liens on securities held by the Bank.
(3) Includes shares for which 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 80 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: Details of results of trading in investments in debentures – see Note 22(e); details on results of trading in shares - see Note 24.

Note 3 - Securities – The Bank (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Total cumulative other profit: Profit	Total cumulative other profit: Loss	Fair value [1]
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel [2]	2,837	2,937	4	104	2,837
Of foreign governments [2]	515	513	2	-	515
Of others	1,574	1,672	-	98	1,574
Total debentures available for sale	4,926	5,122	6	202	4,926
Shares of others (3)	380	332	55	7	380
Total securities available for sale	5,306	5,454	(5) 61	(5) 209	5,306

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [1]
2) Securities held for trading					
- Debentures					
Of the Government of Israel	435	422	13	-	435
Of others	1	1	-	-	1
Total securities held for trading	436	423	(6) 13	(6) -	436
Total securities	5,742	5,877	74	209	5,742

(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. See Note 1.H.

(2) See Note 15.A-D for information on liens on securities held by the Bank.

(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of December 31, 2008, included in this item, amounts to NIS 276 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 51 million.

(4) Includes shares for which 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 88 million.

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

(6) Charged to statement of profit and loss but not yet realized.

Note: Details of results of trading in investments in debentures – see Note 22(e); details on results of trading in shares - see Note 24.

Note 3 - Securities (continued)

Reported amounts (NIS in millions)

3) Further details on consolidated basis with regard to asset-backed available-for-sale securities as of December 31:

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

				2008
	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value (Balance sheet balance)
Asset-backed securities (ABS):				
CDO	20	-	-	20
CLO	90	-	27	63
Total asset-backed securities available for sale	110	-	27	83

4) Further details with regard to the time period in which asset-backed securities available for sale, which include unrealized loss as of December 31:

				2009
	Less than 12 months		12 months or more	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Asset-backed securities (ABS):				
CLO	-	-	37	18
Total	-	-	37	18

				2008
	Less than 12 months		12 months or more	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Asset-backed securities (ABS):				
CLO	-	-	59	27
Total	-	-	59	27

Note 3 - Securities (continued)

Reported amounts (NIS in millions)

5) Asset-backed securities (ABS):

In 2009, expenses amounting to NIS 32 million were recognized 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), compared to NIS 57 million in 2008 (of which NIS 35 million for CDO, NIS 3 million for CLO and NIS 19 million for investments in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds).

The fair value of Bank investments in asset-backed securities as of December 31, 2009 amounts to NIS 65 million, compared to NIS 83 million as of December 31, 2008. For details of the calculation of fair value of investments in securities, see Note 1.H. above. These investments include CDO and CLO securities, as set forth below:

A. CDO (Collateralized Debts 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 below. Total value of debts subordinate to a given debts layer is defined to be the protective layer for said debts.

The fair value of the Bank's investments in these securities as of December 31, 2009 amounted to NIS 2 million, compared to NIS 20 million as of December 31, 2008. The underlying assets are synthetic assets with significant sector diversification and of different credit ratings.

As of December 31, 2009, the Bank recognized impairment with respect to these investments amounting to NIS 53 million as impairment of a non-temporary nature. This compares with NIS 35 million recognized as impairment of a non-temporary nature as of December 31, 2008.

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 December 31, 2009 amounted to NIS 63 million, similar to their fair value as of December 31, 2008. 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.

As of December 31, 2009, the Bank recognized impairment with respect to these investments amounting to NIS 17 million as impairment of a non-temporary nature. This compares with NIS 3 million recognized as impairment of a non-temporary nature as of December 31, 2008.

The Bank's internal model, used to determine the fair value of these investments, indicates that, based on the model, remaining protective layers in these investments exceed the expected loss 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 these securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

Note 4 - Loans to the Public [1]

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
A. 1) Composition				
Credit	95,264	[2]88,932	89,783	79,346
Customers' liabilities for acceptances	198	185	198	185
Total loans	95,462	89,117	89,981	79,531
General and supplementary provision for doubtful debts	213	194	209	185
Total loans to the public	95,249	88,923	89,772	79,346

(1) The specific provision for doubtful debts was deducted from the relevant loan items.
(2) See below under section 4).

2) The balance of deposits based on level of collection (mainly from the Government) and loans issued from them and were set off, as of December 31, 2009, totaled NIS 17,309 million in the consolidated balance sheet and NIS 16,135 million in the Bank's balance sheet (December 31, 2008 – consolidated - NIS 18,321 million and the Bank - NIS 16,553 million).

3) Total housing loans in the consolidated balance sheet as of December 31, 2009 include loans at variable interest totaling NIS 32,725 million (December 31, 2008 – NIS 24,311 million).

4) Debt balances of the public due to open credit card transactions of a subsidiary, amounting to NIS 874 million as of December 31, 2008, were reclassified under credit to the public, against other liabilities.

Note 4 - Loans to the Public (continued)

As of December 31, 2009

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
B. Loans to the public includes:-				
1) Loans to problem borrowers which are not local authorities and for which no provision for doubtful debts by extent of arrears was recorded				
a. Non-income-bearing loans to problem borrowers -				
In Israeli currency				
Non-linked	750	940	745	926
Linked to CPI	71	2	71	2
Foreign currency [(1)]	87	203	87	203
Total	908	1,145	903	1,131
b. Restructured loans without income waiver				
In Israeli currency				
Non-linked	366	98	342	84
Linked to CPI	672	59	672	58
Foreign currency [(1)]	41	37	41	37
Total	1,079	194	1,055	179
c. Loans for which there is a decision to restructure, not yet implemented	126	[(4)] 307	126	[(4)] 307
d. Loans in temporary arrears [(2)]	746	1,034	733	990
Interest credited to statement of profit and loss	19	34	19	33
e. Loans under special supervision [(3)]	1,198	[(4)] 2,628	1,128	[(4)]2,557

	Consolidated		The Bank	
	2009	2008	2009	2008
2) Loans to local authorities	150	175	150	175
a. Loans to local authorities include:				
(1) Loans under special supervision [(3)]	29	32	29	32
(2) Loans to local authorities not included under loans to problem borrowers, as above	121	143	121	143
Interest on these loans included in statement of profit and loss	12	13	12	13

(1) Includes linked to foreign currency.
(2) Loans in temporary arrears – loans in arrears, which the Bank's management views as temporary and as not indicating expected credit losses.
(3) Loans under special supervision - loans for which the Bank's management deems it necessary to intensify monitoring and supervision, while not anticipating loan losses.
(4) Reclassified.

Note 4 - Loans to the Public (continued)

b) Loans to local authorities

1) In 1989, an agreement was signed by several banks, including the Bank, and the Government of Israel, to reschedule the debts of certain local authorities to banks and other creditors. The pro rata share of the Bank and its investees in this arrangement, on the date it was signed, was about 12%. 208 local authorities have joined the arrangement with the banking system, including 181 with debts to the Bank.

   The essential elements of the arrangement are as follows:

   a) Short-term loans that the local authorities owed on September 1989, as well as certain loans coming due subsequent to signing the arrangement, are to be rescheduled over a period of 15 years, with linkage to the CPI plus interest, as agreed in the arrangement.

   b) Additional credit is to be made available to the local authorities in the form of 15-year loans, to enable the local authorities to discharge their debts to various creditors. As of December 31, 2009, the Bank is not party to such credit.

   c) Security to the banks includes the assignment by pledge of Ministry of the Interior grants to the local authorities, and the assignment by pledge of 40% of the transfers from the Ministry of Education and Culture and the Ministry of Labor and Welfare to those local authorities.

2) As a follow-up to the above agreement, separate agreements were signed on different dates between the Bank and each local authority, regarding their debts to the Bank for loans at the Bank's risk.

3) In addition to the balance of debts included in the arrangement with the authorities, some of local authorities which are party to the arrangement have, from time to time, received additional credit in the ordinary course of business, the balance of which, as of December 31, 2009, amounted to NIS 63 million.

4) The law, "Arrangements in the State Economy (Amended Legislation to Achieve Budgetary Targets and Economic Policies in Fiscal Year 2000), 1999 imposes, inter alia, the "creditors' arrangement" mechanism prescribed in Section 233 of the Companies' Ordinance also on municipalities and local councils, so that at the request of a creditor of a municipality or local authority or at the request of the Minister of the Interior, with the consent of the Minister of Justice, the court will be empowered to rule that the mechanism for the arrangement of debts prescribed in Section 233 of the Companies' Ordinance will be imposed, with the required changes, on the municipality or local authority. The significance of the amendment, inter alia, is that creditors holding 75% of the value represented at the vote of a meeting of creditors can force an arrangement on the minority, and the court may ratify an arrangement that will include the restructuring of debts, write-off of debts, or freezing of proceedings.

Note 4 - Loans to the Public (continued)

Furthermore, an argument could be raised in the future that the amendment gives the court authority to impose on a majority of creditors, against their will, a settlement that reschedules or writes off the debts, if the good of the residents of the local authority requires it.
In the estimation of the Bank's management, the effect of this Law on the Group is not material.

5) The Budget Foundations Law (Amendment No. 31 and Temporary Order), 2004 applies to various kinds of local authorities, such as: a local authority for which a recovery plan was approved, a local authority in difficulty and a religious council. The purpose of the amendment is that in the recovery period prescribed for each local authority, all the income of the local authority should be earmarked for specific purposes stipulated in the law, and not to repay debts to creditors. Pursuant to the amendment of the law, the local authority must open specific bank accounts, and it will not be possible to attach, pledge or assign the monies deposited in them which are only intended for use for the objectives designated in the statute.

   A secured creditor, in whose favor the local authority created a lien, will be unable to begin proceedings to foreclose the liens, during the recovery period prescribed in the law. The prohibition on a lien or attachment also applies to collateral securing credit that was given before the law took effect, thus causing some impairment to the proprietary rights of the banks.

   The balance of debts to the Bank of authorities that are covered by the law, as of December 31, 2009, amounts to NIS 31 million (as of December 31, 2008 – NIS 36 million). The balance of debts to the Bank by authorities which may be covered by the law, as of December 31, 2009, amounts to NIS 31 million (as of December 31, 2008 – NIS 35 million). After reviewing the economic standing of these authorities, Bank management estimates that this credit does not indicate anticipated credit loss, so that no provision was made for these debts in the financial statements.

Note 4 - Loans to the Public (continued)

As of December 31, 2009

Reported amounts (NIS in millions)

C. Provision for doubtful debts

				2009
	Specific provision [1]			
	By extent of arrears	Other	Supplementary provision [2]	Total
Consolidated				
Balance of provision as of beginning of year	834	2,148	194	3,176
Subsidiary consolidated for the first time	-	-	-	-
Transfer	[3] 2	[3] (2)	-	-
Provisions in reporting year	246	388	30	664
Decrease in provisions	(226)	(49)	(11)	(286)
Recovery of debts written off in previous years	-	(3)	-	(3)
Amount charged to statement of profit and loss	20	336	19	375
Debts written off	(18)	(171)	-	(189)
Balance of provision as of end of year	838	2,311	213	3,362
Includes - Balance of provision that was not deducted from loans to the public	-	124	-	124
The Bank				
Balance of provision as of beginning of year	794	2,094	185	3,073
Merged subsidiary	40	13	3	56
Transfer	[3] 2	[3] (2)	-	-
Provisions in reporting year	246	367	30	643
Decrease in provisions	(226)	(42)	(9)	(277)
Recovery of debts written off in previous years	-	(3)	-	(3)
Amount charged to statement of profit and loss	20	322	21	363
Debts written off	(18)	(171)	-	(189)
Balance of provision as of end of year	838	2,256	209	3,303
Includes - Balance of provision that was not deducted from loans to the public	-	124	-	124

(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, not included is a provision for interest on doubtful debts, after the debts were determined as doubtful.
(2) Includes general and special provisions for doubtful debts.
(3) Balance of provision for mortgages previously specifically reviewed.
(4) Balance of provision for claims presented in previous periods under provision for doubtful debts.

				2008				2007
	Specific provision [1]				Specific provision [1]			
	By extent of arrears	Other	Supplementary provision [2]	Total	By extent of arrears	Other	Supplementary provision [2]	Total
	821	1,917	172	2,910	798	1,871	192	2,861
	-	23	6	29	-	-	-	-
	-	[4] (8)	-	(8)	[3] 8	[3] (8)	-	-
	307	399	23	729	248	262	-	510
	(273)	(51)	(7)	(331)	(218)	(42)	(20)	(280)
	-	(3)	-	(3)	-	(2)	-	(2)
	34	345	16	395	30	218	(20)	228
	(21)	(129)	-	(150)	(15)	(164)	-	(179)
	834	2,148	194	3,176	821	1,917	172	2,910
	-	110	-	110	-	104	-	104
	781	1,886	170	2,837	759	1,842	189	2,790
	-	-	-	-	-	-	-	-
	-	[4] (8)	-	(8)	[3] 8	[3] (8)	-	-
	299	391	22	712	242	250	-	492
	(266)	(44)	(7)	(317)	(213)	(32)	(19)	(264)
	-	(3)	-	(3)	-	(2)	-	(2)
	33	344	15	392	29	216	(19)	226
	(20)	(128)	-	(148)	(15)	(164)	-	(179)
	794	2,094	185	3,073	781	1,886	170	2,837
	-	109	-	109	-	100	-	100

Note 4 - Loans to the Public (continued)

Reported amounts (NIS in millions)

D. Loans for housing in arrears for which a provision for doubtful debts was made based on extent of arrears

	December 31, 2009				
	3-6 months	6-15 months	15-33 months	Over 33 months	Total
Consolidated					
Amount in arrears	15	33	53	485	586
Includes: delinquency interest	-	1	2	162	165
Balance of provision for doubtful debts based on extent of arrears [(1)]	-	60	130	648	838
Balance of loans net of provision for delinquency interest and for doubtful debts	374	294	132	115	915
The Bank					
Amount in arrears	15	33	53	485	586
Includes: delinquency interest	-	1	2	162	165
Balance of provision for doubtful debt based on extent of arrears	-	60	130	648	838
Balance of loans net of provision for delinquency interest and for doubtful debts	374	294	132	115	915

	December 31, 2008				
	3-6 months	6-15 months	15-33 months	Over 33 months	Total
Consolidated					
Amount in arrears	19	42	65	429	555
Includes: delinquency interest	-	1	3	149	153
Balance of provision for doubtful debts based on extent of arrears [(1)]	-	71	151	612	834
Balance of loans net of provision for delinquency interest and for doubtful debts	453	365	156	94	1,068
The Bank					
Amount in arrears	18	39	62	392	511
Includes: delinquency interest	-	1	3	127	131
Balance of provision for doubtful debt based on extent of arrears	-	67	143	584	794
Balance of loans net of provision for delinquency interest and for doubtful debts	427	342	148	94	1,011

(1) Excludes provision for delinquency interest.

Note 4 - Loans to the Public (continued)

Reported amounts (NIS in millions)

E. Information on housing loans and calculation of the specific provision

						December 31, 2009
	Balance sheet loan balance [1]	Debt balance [2]	Includes: Amount in arrears [3]	Specific provision		
				By extent of arrears	Other	Total
Housing loans for which provision by extent of arrears must be calculated	46,341	906	579	830	-	830
Large loans [4]	5,772	91	26	8	14	22
Other loans	413	24	6	-	19	19
Total	52,526	1,021	611	838	33	871

						December 31, 2008
	Balance sheet loan balance [1]	Debt balance [2]	Includes: Amount in arrears [3]	Specific provision		
				By extent of arrears	Other	Total
Housing loans for which provision by extent of arrears must be calculated	40,417	1,055	550	828	-	828
Large loans (4)	4,062	90	26	6	12	18
Other loans	566	27	9	-	23	23
Total	45,045	1,172	585	834	35	869

(1) The balance of housing loans, after deducting specific balance for doubtful debts and provision for delinquency interest.
(2) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(3) Includes delinquency interest before deduction of the provisions balance.
(4) Housing loans, the balance of each of which exceeds NIS 873 thousand (on December 31, 2008 – NIS 841 thousand).

For details of rules for reduction in provision for doubtful debts by extent of arrears, see Note 1.Q.3.

Note 4 - Loans to the Public (continued)

As of December 31, 2009 - Consolidated

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to credit risk of the borrower:

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers [(1)]	Loans [(2)]	Credit Risk [(3)]
	Up to 10	174,661	259	190
Above 10	Up to 20	73,704	510	599
Above 20	Up to 40	111,740	1,595	1,826
Above 40	Up to 80	141,270	4,217	4,330
Above 80	Up to 150	88,766	6,982	2,649
Above 150	Up to 300	71,505	13,859	1,306
Above 300	Up to 600	46,206	18,218	1,109
Above 600	Up to 1,200	21,774	15,321	1,838
Above 1,200	Up to 2,000	4,024	4,655	1,297
Above 2,000	Up to 4,000	1,828	3,711	1,175
Above 4,000	Up to 8,000	812	3,014	1,330
Above 8,000	Up to 20,000	563	4,129	2,524
Above 20,000	Up to 40,000	218	3,310	2,630
Above 40,000	Up to 200,000	221	7,365	10,363
Above 200,000	Up to 400,000	48	6,588	6,499
Above 400,000	Up to 906,216	9	1,729	3,684
Total		737,349	95,462	43,349

(1) Number of borrowers is based on total loans and credit risk.

(2) Net of specific provision for doubtful debts.

(3) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

Note 4 - Loans to the Public (continued)

As of December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to credit risk of the borrower: (continued)

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers [1]	Loans [2][4]	Credit Risk [3] [4]
	Up to 10	162,957	240	445
Above 10	Up to 20	85,100	532	968
Above 20	Up to 40	107,370	1,671	1,724
Above 40	Up to 80	124,435	4,121	3,165
Above 80	Up to 150	84,089	6,886	2,384
Above 150	Up to 300	70,452	13,318	1,647
Above 300	Up to 600	44,565	17,362	1,190
Above 600	Up to 1,200	14,699	10,522	1,103
Above 1,200	Up to 2,000	2,959	3,539	922
Above 2,000	Up to 4,000	1,589	3,122	1,237
Above 4,000	Up to 8,000	788	2,915	1,358
Above 8,000	Up to 20,000	568	4,244	2,737
Above 20,000	Up to 40,000	225	3,318	2,849
Above 40,000	Up to 200,000	258	9,766	11,499
Above 200,000	Up to 400,000	33	3,834	5,355
Above 400,000	Up to 871,244	13	3,728	4,035
Total		700,100	89,118	42,618

(1) Number of borrowers is based on total loans and credit risk.
(2) Net of specific provision for doubtful debts.
(3) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(4) Reclassified. See Note 4.A.4).

Note 4 - Loans to the Public (continued)

As of December 31, 2009 - The Bank

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to credit risk of the borrower: (continued)

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers [1]	Loans [2]	Credit Risk [3]
	Up to 10	158,615	216	169
Above 10	Up to 20	56,282	403	407
Above 20	Up to 40	67,883	1,062	854
Above 40	Up to 80	90,396	2,771	2,562
Above 80	Up to 150	64,278	5,153	1,735
Above 150	Up to 300	63,998	12,668	1,074
Above 300	Up to 600	46,025	18,162	1,100
Above 600	Up to 1,200	21,747	15,307	1,831
Above 1,200	Up to 2,000	4,014	4,644	1,294
Above 2,000	Up to 4,000	1,818	3,694	1,167
Above 4,000	Up to 8,000	803	2,987	1,312
Above 8,000	Up to 20,000	550	4,011	2,508
Above 20,000	Up to 40,000	213	3,220	2,612
Above 40,000	Up to 200,000	224	7,365	10,363
Above 200,000	Up to 400,000	47	6,588	6,499
Above 400,000	Up to 906,216	9	1,729	3,684
Total		576,902	89,980	39,171

(1) Number of borrowers is based on total loans and credit risk.

(2) Net of specific provision for doubtful debts.

(3) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

Note 4 - Loans to the Public (continued)

As of December 31, 2008 - The Bank

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to credit risk of the borrower: (continued)

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers (1)	Loans (2)	Credit Risk (3)
	Up to 10	132,669	195	339
Above 10	Up to 20	52,824	382	601
Above 20	Up to 40	63,557	1,023	1,054
Above 40	Up to 80	92,186	2,645	2,789
Above 80	Up to 150	66,677	5,085	2,254
Above 150	Up to 300	60,530	11,423	1,524
Above 300	Up to 600	40,948	15,949	1,081
Above 600	Up to 1,200	13,073	9,416	848
Above 1,200	Up to 2,000	2,416	3,041	597
Above 2,000	Up to 4,000	1,380	2,801	1,010
Above 4,000	Up to 8,000	739	2,752	1,253
Above 8,000	Up to 20,000	559	4,203	2,678
Above 20,000	Up to 40,000	221	3,299	2,739
Above 40,000	Up to 200,000	257	9,755	11,464
Above 200,000	Up to 400,000	33	3,834	5,355
Above 400,000	Up to 871,244	13	3,728	4,035
Total		528,082	79,531	39,621

(1) Number of borrowers is based on total loans and credit risk.
(2) Net of specific provision for doubtful debts.
(3) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

Note 5 - Loans to the Government

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
Current credit	300	-	300	-
Loans related to savings plans	1	1	1	1
Loans from debenture issuance proceeds	-	1	-	1
Total loans to the Government	301	2	301	2

Note 6 - Investments in Investees and Details of these Companies

As of December 31,

Reported amounts (NIS in millions)

A. Consolidated

	2009			2008		
	Affiliates	Subsidiaries	Total	Affiliates	Subsidiaries	Total
Investments in shares stated on the equity basis (including goodwill) (1)	(16)	-	(16)	(15)	6	(9)
Other investments - Subordinated notes and capital notes	28	-	28	26	-	26
Total investments	12	-	12	11	6	17
Includes:						
Losses accrued since acquisition date	(16)	-	(16)	(15)	-	(15)
Details of Goodwill (1)						
Amortization rate in years	-	-	-	-	10	10
Original amount	-	-	-	-	9	9
Net book value	-	-	-	-	6	6

(1) Goodwill from acquisition of Tefahot Mortgage Bank Ltd. whose amortized balance as of December 31, 2009 amounted to NIS 18 million, and from acquisition of Adanim Mortgage Bank Ltd. whose amortized balance as of December 31, 2009 amounted to NIS 5 million and from acquisition of Bank Yahav for Government Employees Ltd., whose amortized balance as of December 31, 2009 amounted to NIS 78 million, is presented under “other assets”

Note 6 - Investments in Investees and Details thereof (continued)

As of December 31,

Reported amounts (NIS in millions)

B. The Bank

			2009			2008
	Affiliates	Subsidiaries	Total	Affiliates	Subsidiaries	Total
Investments in shares stated on the equity basis (including goodwill) [1]	(16)	1,224	1,208	(15)	1,276	1,261
Other investments - Subordinated notes and capital notes	28	368	396	26	141	167
Total investments	12	1,592	1,604	11	1,417	1,428
Includes:						
Profits (losses) accrued since acquisition date	(16)	430	414	(15)	347	332
Post-acquisition items accrued in shareholders' equity: adjustments on translation of financial statements	-	(51)	(51)	-	(51)	(51)
Details of Goodwill [1]						
Amortization rate in years	-	-	-	-	10	10
Original amount	-	-	-	-	9	9
Net book value	-	-	-	-	6	6

(1) Goodwill from acquisition of Tefahot Mortgage Bank Ltd. whose amortized balance as of December 31, 2009 amounted to NIS 18 million, and from acquisition of Adanim Mortgage Bank Ltd. whose amortized balance as of December 31, 2009 amounted to NIS 5 million and from acquisition of Bank Yahav for Government Employees Ltd., whose amortized balance as of December 31, 2009 amounted to NIS 78 million, is presented under "other assets"

Bank's share in profits (losses) of investees:

			Consolidated			The Bank
	2009	2008	2007	2009	2008	2007
Bank's share in after-tax operating profit (loss) of investees [2]	(1)	(1)	(1)	82	103	69

(2) No losses from impairment of investees.

Note 6 - Investment in Investees (continued)

Reported amounts (NIS in millions)

	Company detail	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31,			
		2009	2008	2009	2008
C. Details of principal investees [2]					
1) Subsidiaries					
Bank Yahav for Government Employees Ltd.[3]	The Bank	50%	50%	50%	50%
Bank Adanim Mortgages & Loans Ltd. ("Bank Adanim") [4]	mortgage bank	-	100%	-	100%
Tefahot Insurance Agency (1989) Ltd.	insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland) [5]	international holding company.	100%	100%	100%	100%
Mizrahi-Tefahot Factoring Ltd.	Equipment leasing and factoring	100%	100%	100%	100%
Mizrahi Tefahot Underwriting and Issuance (1980) Ltd.	Issuance underwriting	100%	100%	100%	100%
Mizrahi-Tefahot Management Ltd. [7]	previously managed provident funds	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	issuance company	100%	100%	100%	100%
2) Affiliates					
Psagot Jerusalem Ltd. ("Psagot")	land for construction	[12]20%	[12]20%	20%	20%
3) Main subsidiary of a subsidiary of United Mizrahi Overseas International Holding Ltd. (BV Holland)					
United Mizrahi Bank (Switzerland) Ltd.[8]	commercial bank	100%	100%	100%	100%

(1) Includes capital notes.
(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.
(3) For details of the Yahav acquisition, see section E.3). Goodwill from the Yahav acquisition is presented with other assets.
(4) On February 23, 2009, Bank Adanim was merged into the Bank. See section E.1 below for additional information. After the Bank Adanim merger, the balance of goodwill with respect to Bank Adanim is presented with other assets.
(5) The company is incorporated in Holland; as for a subsidiary of the Company, see section 3).
(6) Includes profit due to devaluation of the shekel, relative to foreign currency exchange rates, amounting to NIS 5 million (2008 – a NIS 7 million profit).
(7) See section E.2) for information on the sale of provident fund operations.
(8) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland, and is presented at arm's length in the Bank's financial statements.
(9) Includes profit due to devaluation of the NIS, relative to CHF, amounting to NIS 1 million (2008 – a NIS 7 million profit).
(10) Includes goodwill.
(11) Included under "investment in shares at equity value".
(12) The Bank's share in case of loss is 27%.

Investment in shares											
At equity value [10]		At market value		Goodwill balance [11]		Other capital investments [1]		Contribution to net operating profit (loss)		Dividends recorded	
As of December 31,				For the year ended December 31							
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
430	[3]437	-	-	[3]78	[3]87	356	-	12	11	-	-
-	125	-	-	-	[4] 6	-	129	-	28	-	205
404	356	-	-	-	-	-	-	45	42	-	-
								[6] 13	[6] 19	-	-
278	265	-	-	-	-	-	-				
								-	3	-	-
57	57	-	-	-	-	-	-				
32	32	-	-	-	-	-	-	-	-	-	-
								-	-	-	-
27	27	-	-	-	-	-	-				
								3	1	-	-
14	11	-	-	-	-	-	-				
34	33	-	-	-	-	-	-	1	1	-	-
(15)	(14)	-	-	-	-	28	26	(1)	(1)	-	-
184	171	-	-	-	-	-	-	[9] 13	[9] 18	-	-

Note 6 - Investment in Investees (continued)

D. Balance of goodwill related to subsidiaries – consolidated and the Bank (NIS in millions) (presented under Other Assets)

	Positive goodwill (reported amounts)	
	December 31, 2009	December 31, 2008
Cost	87	91
Accumulated amortization	9	4
Unamortized balance	78	87

E. Additional details

1) On November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. – a wholly owned and controlled subsidiary of the Bank – (hereinafter: "Bank Adanim") to approve the merger of Bank Adanim (the target company) into the Bank (the receiving company) in accordance with sections 314-327 of the Corporate Act, 1999 and to authorize the Bank's management to sign the merger agreement between the companies.

   On February 23, 2009, the Registrar of Corporations' approval of the merger was received, thereby completing all of the suspensive conditions for this merger. As of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into the Bank.

   The great majority of Bank Adanim branch staff continue to hold similar positions with Adanim or Mizrahi-Tefahot; the great majority of headquarter staff at Bank Adanim were hired in similar positions, and the remaining staff were offered temporary employment by Mizrahi-Tefahot so as to allow them to safely go through the crisis period and to locate new employment opportunities in a timely manner. Bank Adanim employees who would select another route, outside the Group, would benefit from improved retirement benefits – identical to those offered to Tefahot employees who retired upon the merger with Bank Mizrahi, even though Adanim employees are not party to a collective bargaining agreement.

   The financial statements include an appropriate provision, whose amount is not material, with respect to retirement cost of Bank ADANIM employees.

2) On March 5, 2007, after obtaining all required regulatory approvals, the transaction to sell all of the provident funds managed by the Bank in a single bundle was concluded in exchange for NIS 343 million, after adjustments that were agreed by the parties to the transaction. The proceeds were calculated at 3.63% of total provident fund assets under Bank management as of February 28, 2007, amounting to NIS 9.4 billion.

   As part of the transaction, in addition to the sales agreement, an operating agreement, distribution agreement and special services agreement were signed between the parties,

Note 6 - Investment in Investees (continued)

Pursuant to the agreement, the Bank will remain guarantor for 5 years from March 5, 2007, three of those years without consideration, for the nominal value of the deposits of members that are members of several provident funds included in the transaction, according to their provisions and bylaws. The principal amount of contributions as of December 31, 2009 amounted to NIS 2,440 million (as of December 31, 2008 - NIS 2,584 million). The fair value of this guarantee, which constitutes a put option written by the Bank, is not material.
From this transaction, the Bank recorded in its financial statements for 2007 net profit from extraordinary operations in the amount of NIS 199 million.
On June 28, 2007, the transaction for sale of provident fund operations managed by Netivot was completed, in exchange for NIS 51.8 million, which is 2.7% of average total assets under management by Netivot in the three months preceding completion of this transaction. The transaction was completed after obtaining all required regulatory approvals.

Netivot's profit from completion of this transaction amounted to NIS 32 million after tax. For this transaction, the Bank recorded in its statement of profit and loss for the second quarter of 2007, net profit from extraordinary operations in the amount of NIS 19 million (60% - equal to Bank share in holdings in Netivot).
In conjunction with this transaction, and in addition to the sale agreement, the parties signed other agreements, including an agreement for provident fund operation by the Bank and agreement on provision of services to provident fund members by the Bank in 2007.

3) On July 10, 2008, the transaction whereby the Bank acquired 50% of the issued share capital of Bank Yahav for Government Employees Ltd. ("Yahav"), with all associated rights was, closed. The total investment cost amounted to NIS 419 million, and the excess acquisition cost over the Bank's share of Bank Yahav's shareholder equity as of June 30, 2008 amounted to NIS 91 million, representing goodwill.

Starting in the third quarter of 2008, Bank Yahav's financial statements are consolidated with those of the Bank Group, pursuant to approval of the Supervisor of Banks dated November 2, 2008.

Note 7 - Buildings and Equipment

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	Buildings and land (including installations and leasehold improvements)	Equipment, furniture, and vehicles	Total	Buildings and land (including installations and leasehold improvements)	Equipment, furniture, and vehicles	Total
A. Composition						
Average depreciation rate:	4%	20%		4%	20%	
Cost of the assets -						
December 31, 2008	1,253	1,591	2,844	1,073	1,422	2,495
Merger of Bank Adanim	-	-	-	13	16	29
Additions in 2009	60	206	266	51	197	248
Disposals in 2009	(12)	(7)	(19)	(9)	(7)	(16)
Cost of assets as of December 31, 2009	1,301	1,790	3,091	1,128	1,628	2,756
Depreciation						
Accumulated as of December 31, 2008 (2)	423	945	1,368	374	810	1,184
Merger of Bank Adanim	-	-	-	3	13	16
Depreciation	40	173	213	32	164	196
Recognized losses from impairment (3)	2	-	2	2	-	2
Disposals	(7)	(7)	(14)	(7)	(7)	(14)
Accumulated depreciation as of December 31, 2009	458	1,111	1,569	404	980	1,384
Net book value						
As of December 31, 2009 (1)	843	679	1,522	724	648	1,372
As of December 31, 2008 (1)	830	646	1,476	699	612	1,311

(1) Includes amortized capitalized cost of independently developed computer software as of December 31, 2009 amounting to NIS 60 million - consolidated and for the Bank (December 31, 2008 - NIS 81 million, consolidated and for the Bank).
(2) Accumulated depreciation includes accumulated losses from impairment.
(3) Losses from impairment of buildings and equipment recognized in the reported period, were recorded under “maintenance and depreciation of assets and equipment”. Impairment losses for assets where previously a similar loss has been recorded, are recorded under “profit from extraordinary items”.

Note 7 - Buildings and Equipment (continued)

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31		December 31	
	2009	2008	2009	2008
B. The above assets include assets not used by the Group:				
Not designated for sale	6	9	6	9
Includes - leased to others	5	5	5	5
Designated for sale	11	3	11	2
C. Leasehold rights (mostly until 2025) in buildings				
Capitalized lease	77	74	77	74
Non-capitalized lease	18	23	18	23

D. Management estimates that, on the basis of decisions taken, a loss on realization of the buildings intended for sale is not anticipated beyond the relevant provision recorded.

E. This item includes installations, leasehold rights and payments on account. Part of the buildings and leasing rights, amounting to NIS 336 million in consolidated and to NIS 306 million for the Bank (as of December 31, 2008 - NIS 314 million consolidated and NIS 283 million for the Bank), have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries. Most of these properties are in the process of being registered.

Note 8 - Other Assets

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31		December 31	
	2009	2008	2009	2008
Deferred tax asset, net (see Note 28)	391	263	383	237
Excess of advance tax payments over current provisions	184	122	147	114
Debit balances for financial derivatives (except for embedded derivatives)	1,491	3,385	1,493	3,379
Goodwill from investment in merged companies	23	22	23	22
Goodwill with respect to a subsidiary	78	87	78	87
Income receivable	84	65	45	39
Other receivables and debit balances	143	215	133	187
Total other assets	2,394	4,159	2,302	4,065

Note 9 - Deposits from the Public

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31		December 31	
	2009	2008	2009	2008
On-call deposits	14,770	10,135	12,001	8,547
Time and other deposits	76,400	77,810	71,432	70,876
Deposits to savings plans	3,851	3,834	3,054	2,719
Total deposits from the public	95,021	91,779	86,487	82,142

Note 10 - Deposits from Banks

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31		December 31	
	2009	2008	2009	2008
Commercial banks:				
On-call deposits	198	119	630	103
Term deposits	1,502	1,519	5,567	2,460
Acceptances	198	185	198	185
Special banking entities:				
On-call deposits	1	-	1	-
Term deposits	-	44	-	44
Total deposits from banks	1,899	1,867	6,396	2,792

Note 11 - Debentures and Subordinated Notes

As of December 31,

Reported amounts (NIS in millions)

	Average maturity in years (1)		Internal rate of return (2)					
	Consoli-dated	The Bank	Consoli-dated	The Bank	Consolidated		The Bank	
				2009	2009	2008	2009	2008
Debentures and subordinated notes not convertible into shares:								
In Israeli currency, CPI-linked								
Debentures (3)	3.56	-	4.54%	-	1,476	1,424	-	-
Subordinated notes (4)	6.27	6.25	4.88%	5.09%	6,790	5,413	4,825	4,430
Total debentures and subordinated notes	5.80	6.25	4.84%	5.09%	8,166	6,837	4,825	4,430

(1) Average maturity is the average of the repayment periods, weighted by the cash flows discounted according to the internal rate of return.
(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.
(3) The debentures are secured by floating liens (some, also by fixed liens) on all of the assets of the issuing company. For details, see Note 15.E.
(4) Upon dissolution, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Regulation 311 of Proper Banking Conduct Regulations, and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are bonds that, if certain events specified in advance in their terms, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated AA+, with the changes required by the terms of the subordinated notes. Note, that should the Bank issue in future complex tier I capital, the Bank would maintain an original tier I capital ratio (excluding the complex tier I capital) of no less than 6%. On May 16, 2007, the same rating was approved for capital notes allocated, pursuant to the published prospectus for listing them for trading. On April 5, 2009, Ma'alot announced that in conjunction with a review by S&P of ratings of hybrid instruments world wide, including in Israel, in view of the global financial crisis, the rating of the subordinated capital notes was lowered from AA- to A+.

   In November 2006, subordinated notes, as noted above, amounting to NIS 460 million par value were issued to institutional investors in exchange for NIS 451 million; maturity date is January 1, 2106. These capital notes may be called by the Bank starting on December 31, 2021 – once every 5 years.

Note 11 - Debentures and Subordinated Notes (continued)

On May 20, 2007, the Bank's Board of Directors approved the prospectus for listing of the issued complex subordinated notes for trading. Based on this prospectus, the series may be expanded by further issuance of complex subordinated notes (Series A) up to a cumulative total of NIS 2 billion. On May 21, 2007, the Israel Securities Authority approved publication of the prospectus. The issued subordinated notes were listed for trading in early June 2007. Starting in June 2007 and through 2009, the Bank issued and listed for trading additional subordinated notes amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.

All of the Bank's subordinated capital notes (Series A) issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payments to holders of capital notes would be suspended, inter alia, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, with respect to six consecutive quarters, should be negative).

B. Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued debentures and subordinated notes under the terms of a prospectus to the public, with a par value of NIS 2,901 million as of December 31, 2009, and deposited the proceeds in the Bank earmarked for its day-to-day activities.

To secure fulfillment of the Company's obligations deriving from some of the debentures and subordinated notes totaling NIS 728 million, the Company undertook to assign all of its rights in each of the deposits that it had deposited in the Bank from the proceeds of securities offered pursuant to the prospectus in favor of the Trustee of the issued securities.

Additionally, the Bank holds NIS 55 million par value of debentures that were issued by the Company. The Bank is allowed to sell the debentures, at its discretion, on the TASE or off-exchange, and when sold, their terms will be the same as the debentures in circulation.

On February 25, 2009, the Company 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 the Company at Bank Mizrahi-Tefahot Ltd. The prospectus also allows for expansion of the bond series and of the subordinated obligatory note series.

In 2009, the Company issued additional subordinated obligatory notes (Series 30) of NIS 779 million par value, for consideration amounting to NIS 864 million. Of this, NIS 424 million par value were allotted pursuant to the shelf prospectus dated February 25, 2009 and the shelf offering report dated October 27, 2009.

Note 12 - Other Liabilities

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31		December 31	
	2009	2008	2009	2008
Provision for deferred taxes, net (see Note 28)	37	39	37	39
Excess of current provisions for income taxes over advances paid	4	21	-	-
Excess of provision over funding for severance pay, retirement and pension (see Note 16)	576	434	575	419
Deferred income	249	202	249	181
Credit balances for financial derivatives (except for embedded derivatives)	1,981	3,299	1,971	3,295
Accrued expenses	198	149	165	119
Provision for unutilized vacations and long- service bonus	86	77	78	69
Guarantees payable	31	30	31	30
Provision for doubtful debts for off-balance sheet and other items	124	(1) 110	124	(1) 109
Payables for credit card operations	2,424	(2) 2,248	1,487	1,374
Other payables and credit balances	549	(1) 277	524	(1) 224
Total other liabilities	6,259	6,886	5,241	5,859

(1) Reclassified.
(2) Reclassified. For more information, see Note 4.A.4).

Note 13 – Share Capital and Shareholders' Equity [(1)]

A. Details on share capital of the Bank (in NIS):

	Registered		Issued and paid-in	
	December 31		December 31	
	2009	2008	2009	2008
Ordinary shares, NIS 0.1 [(2)]	40,000,000	40,000,000	[(3)] 22,513,948	22,286,936

(1) For allotment of options on shares – see Note 16.A.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.
(3) Includes 2,500,000 dormant shares, acquired and held by the Bank. For details, see section D. below.

B. On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policy, whereby, provided that the Bank's capital ratio is not less than 10%, dividends will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policy is in effect as from the year 2006.

It should be noted that a dividend distribution by the Bank is subject, in addition to the aforesaid, to the provisions of the law and additional limitations.

C. Information on dividend distribution limitations is provided below:

- According to the directives of the Supervisor of Banks with respect to a dividend distribution by banking corporations, a bank may not distribute cash dividends, as long as its non-monetary assets exceed its adjusted shareholders' equity. As of December 31, 2009, the Bank's reported capital exceeds its non-monetary assets by NIS 3,732 million.
- The permit issued to the purchasers of the controlling interest by the Bank of Israel Governor stipulates that dividends will not be distributed out of profits accruing through September 30, 1994, the amount of which (after capitalization to a capital reserve in 1998) is NIS 100 million.

D. On May 27, 2009, the Bank received the Supervisor's approval, allowing the Bank to buy back on a non-recurring basis 2,500,000 shares of NIS 0.1 par value of the Bank's issued share capital, subject to statute and to terms and conditions set forth in the Supervisor's approval. On July 20, 2009 the Bank's Board of Directors approved a share buy-back plan by the Bank, to acquire up to 2,500,000 shares of NIS 0.1 par value each, subject to terms and conditions set forth in the Supervisor's approval. On September 24, 2009, the Bank completed the buy-back, purchasing in total 2,500,000 shares at a cost of NIS 76 million.

The shares held by the Bank are designated to be provided as consideration for exercise of stock options under the stock option plan for VPs - for details see Note 16.A. In accordance with the condition set forth in the Supervisor's approval, the Bank would sell all excess shares (if any) immediately after the end of the exercise period of all option warrants allotted pursuant to the stock option plan, i.e. immediately after the seventh anniversary of the date of allotment of option warrants in accordance with the stock option plan. In accordance with a pre-ruling obtained from the Tax Authority, the Bank would not incur any tax liability upon purchase of shares as set forth above. The Bank's Board of Directors has concluded that buy-back of Bank shares in accordance with the aforementioned buy-back program meets the distribution criteria stated in the Companies Law and is compliant with terms and conditions set forth in Proper Conduct of Bank Businesses Regulation No. 331. The Board of Directors has re-examined the Bank's compliance with distribution tests stipulated in the Companies Law, as well as compliance with conditions determined by Regulation 331, immediately prior to these acquisitions.

Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks

Reported amounts (NIS in millions)

A. Capital adequacy information

	December 31, 2009		December 31, 2008
	Basle II [1]	Basle I [2]	Basle I [2]
1.Consolidated data			
a. Bank capital for purpose of calculating capital adequacy ratio			
Tier I capital, after deductions	6,702	6,816	6,265
Tier II capital, after deductions	5,220	5,298	4,410
Tier III capital	-	-	-
Other deductions	-	(2)	-
Total capital	11,922	12,112	10,675
b. Weighted risk asset balances			
Credit risk	75,982	94,007	91,842
Market risk	624	2,349	2,541
Operating risk	7,038	-	-
Total weighted risk asset balances	83,644	96,356	94,383

	באזל II [1]	באזל I [2]	באזל I [2]
In %			
c. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	8.01	7.07	6.64
Ratio of total capital to risk elements	14.25	12.57	11.31
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	9.00	11.10	11.90
Total ratio of capital to risk elements	13.60	16.70	11.90
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) Calculated based on interim directive on "Framework for Measurement and Capital Adequacy" dated December 31, 2008.

(2) Calculated in accordance with Directives No. 311 and 341 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks". 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.

Data as of December 31, 2009 in accordance with Basel I, as applied pursuant to directives by the Supervisor of Banks, are presented in order to clarify the impact of change in measurement method of ratio of capital to risk elements, and in order to enable comparison with previous periods.

Note 14 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

Reported amounts (NIS in millions)

	December 31, 2009		December 31, 2008
	Basle II (1)	Basle I (2)	Basle I (2)
3. Capital components for calculation of capital ratio (on consolidated basis)			
a. Tier I capital			
Paid-up share capital and capital reserves	1,992	1,992	1,991
Cumulative other comprehensive income	(3) (83)	(44)	(93)
Retained earnings	4,584	4,584	4,054
Minority interest of external shareholders in equity of consolidated subsidiaries	353	353	351
Less:			
Goodwill	(101)	(101)	(115)
Net gainswith respect to fair value adjustments of available-for-sale securities (4)	-	32	87
Tier I capital after Tier I deductions alone	6,745	6,816	6,275
Less: Investments in supervisory capital components of banking corporations	(20)	-	(6)
Other deductions from Tier I capital	(23)	-	(4)
Total Tier I capital	6,702	6,816	6,265
b. Tier II capital			
1. Upper Tier II capital			
General provision for doubtful debts (5)	110	110	110
Complex capital instruments	1,780	1,780	1,172
2. Lower Tier II capital			
Subordinated notes	3,372	3,408	3,128
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(19)	-	-
Other deductions from Tier II capital	(23)	-	-
Total Tier II capital	5,220	5,298	4,410

(1) As applied based on interim directive on "Framework for Measurement and Capital Adequacy" dated December 31, 2008.

(2) As applied in accordance with Directives No. 311 and 314 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks". 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.
Data as of December 31, 2009 in accordance with Basel I, as applied pursuant to directives by the Supervisor of Banks, are presented in order to clarify the impact of change in measurement method of ratio of capital to risk elements, and in order to enable comparison with previous periods.

(3) Excludes net gains from cash flow hedges.

(4) Under Basel 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.

(5) The general provision for doubtful debts constitutes part of upper Tier II capital, and is not deducted from credit to the public.

Note 14 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

B. On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12% by end of 2009. On June 29, 2009 the Bank's 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. These resolutions are in conjunction with the resolution by the Bank's Board of Directors from April 2006, stipulating that the capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%.

C. In a letter dated August 20, 2009, the Bank of Israel instructed banks that, pending completion of the supervisory review and assessment process by the Bank of Israel of implementation of Pillar 2 of the interim directives concerning Basel II implementation (SREP), the bank is required to continue maintaining the capital targets as defined there by in terms of Basel I (Proper Conduct of Banking Business Regulation No. 311).

D. The Bank is in compliance with all capital requirements pursuant to directives of the Supervisor of Banks, and in accordance with limits set by the Board of Directors. Bank policy requires regular review of the ration of capital to risk elements, and taking action whenever this ratio approached the limits set by the Board of Directors, in order to minimize the risk of exceeding those limits. Failure to comply with minimum capital requirements would require the Bank or Group companies to reduce risk exposure, in order to reduce the capital requirement in line with existing capital. Reducing risk exposure may be accompanied by costs, due to the need to enter into transactions under sub-optimal conditions.

E. Upper Tier II capital includes complex capital notes amounting to NIS 1,780 million as of December 31, 2009, and to NIS 1,172 million as of December 31, 2008. The summary of terms and conditions there of are as follows:

- Capital notes bear interest and are linked to the CPI.
- Capital notes are not secured by liens on Bank assets or by any other collateral.
- Under certain circumstances, the Bank may suspend interest payments for the notes.
- The Bank would be required to convert the subordinated capital notes into ordinary Bank shares, using a pre-determined formula, if the Bank's ratio of tier I capital to risk components would decrease significantly, if the Bank's retained earnings balance would turn negative, or if the Bank's external auditors should raise significant doubt with regard to continued Bank status as a going concern - all under conditions stated in the terms of the capital notes.
- The Bank's obligation to make payments on account of the subordinated capital notes are to be subordinate to all other Bank obligations to creditors of all types, including to holders of subordinated capital notes issued or to be issued by the Bank and/or its subsidiaries, and would only outrank the rights of shareholders to a refund of excess Bank assets upon its dissolution.

Note 14 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

F. Tier II capital includes subordinated ntoes (as defined by Directive 311) amounting to NIS 3,408 million as of December 31, 2009, compared to NIS 3,128 million as of December 31, 2008. The summary of terms and conditions there of are as follows:
   - Subordinated notes bear interest and are linked to the CPI.
   - The notes shall rank below all other Bank liabilities which are not specified as having an equal or lower ranking, as set forth above.
   - The notes are not secured by any collateral, are not subject to any lien, and the Bank may not receive any lien with respect to them, to secure any loan granted by the Bank or by its subsidiary.
   - The notes are not subject to early repayment nor to any change in terms, without prior written consent of the Supervisor of Banks.

G. For details of issuance of complex capital notes and subordinated notes, see Note 11 above.

Note 15 - Liens

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 19.D.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government bonds of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank’s share in the risk fund. The value of debentures deposited as of December 31, 2009 is NIS 102 million (as of December 31, 2008 – NIS 152 million).
2) Additionally, in the account opened by the stock exchange clearinghouse in its name for the Bank in another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from the said securities, including cash proceeds from their sale. As of December 31, 2009, deposits to this account amounted to NIS 24 million (as of December 31, 2008 - NIS 26 million).
3) The accounts discussed in Par. 1 and 2 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse.

B. Stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 19.D.2).

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government bonds of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank’s share in the risks fund. The value of debentures deposited as of December 31, 2009 is NIS 770 million (as of December 31, 2008 – NIS 822 million).
2) Additionally, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from the said securities, including cash proceeds from their sale. As of December 31, 2009, deposits to this account amounted to NIS 26 million (as of December 31, 2008 - NIS 37 million).
3) The aforementioned accounts in sections 1-2 are pledged under a floating and fixed lien to benefit the MAOF clearinghouse.

Note 15 - Liens (continued)

C. In August 2007, the Bank of Israel launched the Real Time Gross Settlement framework ("RTGS"). This system allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2009 and as of December 31, 2008, no debentures were deposited in this account.

D. In accordance with the requirement of the regulatory agencies in the USA the Bank's branch there pledged securities amounting, as of the balance sheet date, to $32 million (as of December 31, 2008 – deposits with banks amounting to $21 million and securities amounting to $6 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other governmental directives. Most of the lien, which amounted to $31 million as of December 31, 2009 (as of December 31, 2008 – $27 million), relates to a demand by U.S. regulatory agencies to provide security for 10% of the branch's liabilities, as defined by the authorities there.

E.

	December 31	
	2009	2008
Sources of securities as of December 31, 2009, which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	307	12
Securities received as collateral and Bank securities, at fair value excluding set-offs:		
Securities sold in repurchase agreements	-	972

These securities have been provided as collateral to lenders, who may sell or pledge them.

Note 16 - Employees' Rights

A. The employment terms of the vast majority of the Group's employees and managers (except for those detailed in paragraphs B - I below) are determined in accordance with the provisions of collective labor agreements. Liabilities to these employees are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities provided for those employees by law. With respect to several previous Tefahot employees, the Bank is legally absolved from making compensation payments only for the period commencing on February 1, 2006 (with respect to previous Tefahot management, the Bank is absolved from its obligation commencing January 1, 2006). With respect to the Bank's obligation until the end of 2005 (until January 2006 for previous Tefahot management), the Bank has contributed to pension and retirement funds and has recorded a provision for the difference between liability and contributions.

B. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

C. At Bank Yahav, the Bank customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in provident funds. Retiring Bank Yahav employees are also entitled, under the labor agreement, to partial redemption of unused sick days. This liability is covered by a provision based on actuarial calculations.

D. The Bank's Chairman of the Board is eligible, upon his resignation, to amounts that were regularly deposited on his behalf, at customary rates, in various funds.

E. The Bank's President ("the President") entered into an agreement with the Bank ("the agreement") whereby he would be employed by the Bank for a term of 5 years and 4 months starting December 1, 2008 and ending April 1, 2014. The current agreement is further to the previous 5-year agreement commencing on March 29, 2004. The agreement was approved by the Bank's Board of Directors on November 30, 2008, after receiving approval of the Bank's Audit Committee and then accepting the recommendation by the Compensation Committee concerning the principles of major terms of employment of the President.

Pursuant to the agreement, the President is entitled to receive upon termination of his employment for any reason whatsoever (other than termination under specific circumstances set forth in the employment agreement) severance pay equal to 200% of his most recent monthly salary upon termination of his employment for each year of service to the Bank, a 3-month adjustment period as well as current amounts with respect to pension payments deposited on his behalf at the usual rates. The financial statements included provisions for these liabilities.

The Bank may terminate the agreement with the President with 4 months' prior notice (instead of six months under the previous agreement).

Note 16 - Employees' Rights (continued)

In the agreement, the President waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement.

See Note 16.A.1 for details of options to acquire Bank shares allotted to the President under the new agreement.

F. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority.

The Bank does not intend to dismiss any of these senior employees employed in the Bank, however, after taking into consideration the experience gained from the retirement of senior employees in the past, and taking into account the terms of their retirement, the financial statements include a provision for the full possible liability for these employees as of the date of the financial statements. These employees are also eligible, upon retirement, to other sums and rights, as accrued in their favor in various funds.

Additionally, in line with management expectations based on previous experience with additional payments to senior employees who have retired, a suitable provision has been made in the financial statements.

G. Several senior employees are eligible upon their retirement to an acclimation grant of three to six months' salary, for which a provision was recorded in the financial statements.

H. Three senior employees are eligible upon their retirement to increased severance pay of 150% of their last monthly salary multiplied by the number of their years of employment in the Bank, beyond the amounts deposited in funds, as required by law. Alternatively, these employees are entitled, provided they have passed age 55, to budgetary pension until they reach retirement age. With respect to this right, a full provision has been made in the financial statements.

I. Pension agreements were signed with two employees of an overseas affiliate of the Bank, whereby they will be entitled to a monthly pension for 180 months from retirement, after aggregating 20 years' seniority in the Bank, and under certain other circumstances prescribed in the agreements. The actuarial value of the provision recorded in the financial statements for this liability was calculated using a discount rate of 6%, which corresponds with the yield on the monies deposited for payment of these pension rights, and assuming that the annual pay raise will be at a rate of 3.5%.

J. On April 27, 2006, the Bank's Board of Directors approved a special collective agreement (labor agreement) reached with the employee representatives – clerk sector – for a period until December 31, 2010.

Under the agreement, the Bank may terminate up to 50 permanent employees during the term of the agreement for reason of incompatibility, as well as to institute a voluntary retirement plan (with veto rights to management) to terminate up to 200 other employees during the term of the agreement.

Note 16 - Employees' Rights (continued)

With respect to the voluntary retirement program, a pre-tax provision in the amount of NIS 208 million (NIS 131 million after tax) was recorded in 2006, which was calculated based also on an actuarial calculation, while using a 4% discount rate. The provision was included in "salaries and related expenses" in the statement of profit and loss.

On September 16, 2009, a special collective bargaining agreement (labor agreement) was signed (hereinafter: ("the new agreement") was reached with the employee representatives – clerk sector, whereby the collective bargaining agreement signed April 27, 2006 (hereinafter: "the current agreement") was extended by a further 5-year term, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

Highlights of the new agreement, as they also were in the old agreement, are as follows:

- Extension of the "employment constitution" through December 31, 2015.
- Maintaining absolute calm labor relations during the agreement period. The obligation to maintain calm labor relations shall not apply in case of a labor dispute involving all bank sector employees in Israel.
- Specification of dispute resolution mechanisms: negotiation, facilitation, arbitration.
- The Bank committed not to terminate for economic reasons any permanent employees during the term of the agreement. This commitment does not apply to individual termination for cause, incompatibility or regulatory changes.
- Enactment of a voluntary retirement program for up to 200 employees during the term of the agreement, starting in 2011. Management has the right to veto any specific voluntary retirement application without being required to provide any justification.
- Management has the option of terminating up to 50 permanent employees during the term of the agreement period, for incompatibility reasons, starting in 2011.

With respect to the retirement program stipulate in the new agreement, and in accordance with management expectations, a provision was recorded in the second half of 2009, amounting to NIS 170 million (NIS 118 million after tax), calculated based on actuarial calculations using a 4% discount rate. The provision was included in "salaries and related expenses" in the statement of profit and loss.

K. In January 2007, management of Mehish Computer Services Ltd. ("Mehish"), a wholly-owned and wholly-controlled subsidiary of the Bank, whose financial statements are included in the Bank's financial statements, and the Employee Council of Mehish signed a collective bargaining agreement that contains a voluntary retirement plan The plan provides for retirement in an early retirement track, for employees, who on their retirement date will be at least 55 years old and are insured in managers' insurance or an aggregating pension fund, or an increased severance pay track for other employees. The final decision on acceptance or rejection of the request for early retirement rests with the general manager of Mehish.

Note 16 - Employees’ Rights (continued)

The financial statements include an appropriate provision with respect to the cost of the voluntary retirement program.

L. Long-service bonuses

Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

M. Provisions for long-service bonuses and the voluntary retirement agreement were based on actuarial calculations using a 4% discount rate.The calculation takes into account a future real pay increase of 2.5% except for retired employees who are not entitled to a real increase in the pension paid to them.

N. Bonuses for officers

1. 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) (each of these years hereinafter in this section "report year") inter alia by way of creating a pool for bonus payments to officers. On March 2, 2009, an amendment to the bonus plan was approved, concerning the date on which the Board of Directors would discuss bonus payments pursuant to the aforementioned plan (hereinafter: "the bonus plan").

2. In accordance with the bonus plan, the Board of Directors would determine for each reported year, the number of monthly salaries to be deposited for each officer of the Bank, to a fund designated for bonus payment to officers. For any reported year, the number of monthly salaries would be based on the Bank's average operating net profit return on equity, as defined in the bonus plan (hereinafter: "the annual return ratio").

   Accordingly, the Board of Directors shall determine in each report year the number of salaries to be transferred to the pool, if the annual return ratio should range from 12% to the maximum return ratio to be determined by the Board of Directors for that report year (hereinafter in this section: "the maximum return ratio") based on a scale to be determined by the Board of Directors for this purpose.

3. Shortly prior to publication of the Bank's annual report for the report year, and based on the expected annual return ration for the report year, pursuant to the Bank's draft annual statements for the report year, subject to approval by law, the Board of Directors shall decide, after discussing recommendations of the Bank President and subject to approval by the Audit Committee (in as much as required by law), as set forth below -

   3.1. Should the annual return ratio for the report year range from 12% to the maximum return ration set by the Board of Directors for that report year, the Board of Directors shall determine the bonus amount to be paid out of the bonus payment pool, for the report year, provided that no single officer be paid a bonus higher than 12 salaries for the report year.

Note 16 - Employees' Rights (continued)

3.2. Should the annual return ratio for the report year be lower than 12%, the Board of Directors shall determine the bonus amount to be paid (if any). Furthermore, should the annual return ratio for the report year be higher than the maximum ration set by the Board of Directors for the report year, then the Board shall determine the bonus amount to be paid for the report year.

4. Furthermore, in accordance with the bonus plan, the Board of Directors may decide, at its discretion, to have bonuses paid to officers with respect to net profit from extraordinary items at the Bank for any report year.

5. Pursuant to provisions of the bonus plan, the Board of Directors, after receiving approval of the Audit Committee, decided that the maximum return rate for 2008 shall be 14.1% and that the Bank shall transfer to the pool for bonus payments to officers for 2008, from 4 salaries for each officer if the annual return ratio will be 12%, and up to 10.4 salaries for each officer if the annual return ratio will be 14.1% - in accordance with a scale determined by the Board of Directors for this purpose.

6. For details of the stock option plan for VPs, in which the offerees waived their right to receive a bonus as set forth above, see Note 16.A.2).

O. The provisions and deposits for employees' rights to pension, severance pay and acclimation grants are included in "other liabilities", as follows: (reported amounts, NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
Amount of provision [(1)]	674	525	584	426
Amount funded [(2)]	98	91	9	7
Excess of provision over funding	576	434	575	419
(1) Included with respect to pension liabilities	331	300	331	300

(2) The Bank and its subsidiaries may not withdraw the funded amounts other than for severance payments.

P. Provisions for employees' rights to paid leave, redemption of unused sick leave and seniority grants are included in "other liabilities" as follows (in reported amounts, NIS in millions):

	Consolidated		The Bank	
	2009	2008	2009	2008
Provision for vacation	73	64	67	58
Provision for seniority bonuses	13	13	11	11
Provision for redemption of sick leave [(1)]	7	7	-	-

(1) Presented under other liabilities, under other accounts payable.

Note 16.A. – Share-based Payment Transactions

1. Stock option plan for the President

On November 30, 2008, the Bank Board of Directors, following approval by the Bank Audit Committee at its meeting on November 30, 2008, resolved to approve the new stock option plan for allotment of option warrants by private offer to the Bank President.

In conjunction with the stock option plan, the Bank allotted to a trustee on February 1, 2009, on behalf of the President, at no cost 5,571,381 option warrants, each exercisable into one Bank ordinary share of NIS 0.1 par value, subject to adjustment for distribution of bonus shares, rights issuance, split or reverse split of shares or dividend distribution. Assuming full exercise of all option warrants, and assuming allotment of the maximum possible number of exercised shares, all option warrants allotted under the stock option plan would be equal to 2.44% of the Bank's issued share capital and voting rights (after allotment of the full number of exercised shares), and assuming full dilution – 1.54% of the Bank's issued share capital and voting rights.

Should the President elect to exercise the option warrants, in whole or in part, by way of allotment against the benefit amount, as set forth below, then the assumption with regard to allotment of the maximum number of exercised shares is merely theoretical, since in this way the full amount of resulting exercised shares would not be allotted, but rather only enough shares to reflect the monetary benefit amount inherent in the option warrants, as set forth below.

The trustee would grant the option warrants to the President, subhect to provisions of the stock option plan, in 5 lots (4 equal lots of 1,114,276 option warrants each, and one lot of 1,114,277 option warrants) on April 1 of each year between 2010-2014. Should employment of the President by the Bank be terminated prior to April 1, 2014 (i.e. prior to conclusion of the term of the new employment agreement), not by the President and not under specific circumstances set forth in the employment agreement, the President would be eligible to receive on his final day in office as Bank President the remainder of the option warrants included in the lots not yet granted to him by that date.

The President may exercise the option warrants starting on the grant date and through April 1, 2014 or through 24 months after his final day in office as Bank President, whichever is later, but no later than April 1, 2016.

The exercise price for each option warrant is NIS 21.18, plus linkage differentials to the Consumer Price Index starting on the date on which the Board of Directors approved the stock option plan and up to the CPI known upon the exercise date. The exercise price has been determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 (the trading day preceding the date on which the recommendation by the Compensation Committee was received, as set forth above). Note that the exercise price is higher by 9.5% than the closing price of Bank shares on the stock exchange on November 27, 2008 (NIS 19.35), when the exercise price was discussed by the Audit Committee, which was the trading day preceding the date on which the Board of Directors approved the employment agreement and the stock option plan.

Note 16.A. – Share-based Payment Transactions (continued)

The options may be exercised, in whole or in part, in any of the following ways:

1) Each option warrant would be exercised into one Bank share (subject to adjustments), in exchange for payment of the full exercise price.
2) The Bank would allot, at no cost, a number of shares whose market value based on the closing price for Bank shares on the stock exchange on the trading day preceding the exercise date would be equal to the monetary benefit amount inherent in the options upon the exercise date.

The Bank applies Accounting Standard no. 24 "Share-based Payment". In accordance with provisions of this standard, the Bank records in its financial statements an expense equal to the fair value of the option warrants. The expense, for each of the 5 lots, is allocated over the period from the allotment date to the grant date for that lot. The theoretical fair value of the option warrants was calculated using the Black & Scholes model. Calculation of the fair value accounts for terms and conditions of the plan as well as for the following data and assumptions:

1) Calculation of the fair value does not account for the fact that the option warrants would not be listed for trading on the stock exchange, nor does it account for blocking of the option warrants, as set forth in the stock option plan.
2) The exercise price for each option warrant, for the purpose of this calculation, is NIS 21.18 as stated above.
3) It was assumed that all option warrants would be exercised on the last day of the exercise period, i.e. expected duration of 7 years and 4 months.
4) The standard deviation used for this calculation was 27.06%, which was calculated by measuring the historic standard deviation of share prices on the stock exchange over a period equal to the expected duration of the option warrants, ending on November 27, 2008.
5) The risk-free interest rate used for the calculation - 3.88% - was calculated based on interest rate quotes for risk-free, CPI-linked NIS-denominated assets traded on the stock exchange as of November 27, 2008 for a term equal to the expected duration for exercise of each option warrant.
6) The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is %.

Based on the assumptions set forth above, the fair value of all option warrants to be granted to the President under the new stock option plan is NIS 38.6 million (NIS 44.6 million, including payroll tax at a rate of 15.5% as it stood at that time).

Note 16.A. – Share-based Payment Transactions (continued)

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the President from exercise of these option warrants shall be taxed at the marginal tax rate applicable to the President upon exercise of the option warrants. The Bank would be required to pay the payroll tax with respect to the benefit arising to the President from exercise of the option warrants under the new stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the President, the Bank may make a deduction for tax purposes with respect to the aforementioned option warrants based on the effective tax rate applicable upon the exercise date.

2. **Stock option plan for VPs**

On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of option warrants by private placement which does not constitute a material private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.) (hereinafter: "the offerees"). The Board of Directors further decided, after obtaining approval of the Audit Committee, that allotment of the option warrants is contingent on the Supervisor of Banks allowing the Bank to buy back at least 1,400,000 shares of NIS 0.1 par value of the Bank's issued share capital. For details of 2,500,000 Bank shares bought back by the Bank in accordance with approval of the Supervisor of Banks, see Note 13.D.

Each offeree pursuant to the stock option plan consented, by their own choice, that should the Bank allot to them stock options pursuant to the plan, they would be excluded from the framework bonus plan for Bank officers for each of the years 2009 through 2012, and would not be included in a bonus plan for Bank officers for 2013, should such plan be approved by the Bank.

In conjunction with the stock option plan, the Bank allotted on June 29, 2009 to the trustee, on behalf of the offerees, 5,850,000 option warrants which would not be listed for trading on the stock exchange. The option warrants may each be exercised for one Bank ordinary share of NIS 0.1 par value, for no consideration, subject to terms and conditions of the plan. Allotment of the maximum number of exercise shares is only theoretical. Upon the exercise date of the option warrants, offerees would not be allotted the full number of exercised shares arising from the option warrants which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned option warrants.

The exercise price for each option warrant allotted to offerees pursuant to the plan is NIS 21.18, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 - which was also the basis for the exercise price of option warrants allotted to the Bank President as set forth above. Note that the exercise price is higher than the closing price of Bank shares on the stock exchange on March 26, 2009 - the most recent trading day prior to the date on which the Board of Directors approved the stock option plan.

Note 16.A. – Share-based Payment Transactions (continued)

The option warrants allotted to the trustee for each offeree, in accordance with the plan, were allotted in 5 equal lots. Each lot shall vest upon vesting dates on each anniversary of the allotment date, from the first anniversary (for the first lot) to the fifth anniversary (for the fifth lot).

Each offeree would be eligible to exercise option warrants included in the exercise lot which vested on any date, provided that the net operating profit return on the Bank's average shareholders' equity for the reported year preceding said vesting date should be 10% or higher. Should the aforementioned rate of return for the reported year prior to said vesting date be lower than 10%, the offeree may not exercise at any time the lot vested on said vesting date.

The Bank's Board of Directors would be qualified, at its own discretion and subsequent to approval by the Audit Committee, to exclude the impact of non-recurring or extraordinary events from calculation of the annual rate of return for any reported period.

The fair value (theoretical benefit value) of a single option warrant in any lot of option warrants 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 term. The following assumptions were used for calculation of fair value:

- The exercise price for each option warrant, for the purpose of this calculation, is NIS 21.18.
- The expected term to exercise of each lot was assumed to be the average of the vesting period of each lot (from one year for lot 1, to five years for lot 5) and the plan term (7 years).
- Standard deviation for each lot was calculated using historical daily returns of the share price on the stock exchange over a period equal to the expected term of each lot.
- The risk-free interest rate was calculated based on quoted yield to maturity information for CPI-linked government debentures traded on the stock exchange, as published on March 26, 2009.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is %.
- For calculation of fair value, it was assumed that net operating profit return on the Bank's average shareholders' equity in each plan year would be 10% or higher.
- Calculation of the fair value does not account for the fact that the option warrants would not be listed for trading on the stock exchange.

The number of option warrants which the offerees may exercise shall be reviewed upon each reporting date, based on information available at that time. The results of this review may reduce the expense charged in the Bank's financial statements with respect to option warrants over plan years, but may not change the fair value of each option warrant included in each lot.

Note 16.A. – Share-based Payment Transactions (continued)

On November 9, 2009, the Bank Board of Directors, after obtaining approval by the Bank Audit Committee, resolved to approve allotment of a further 1,104,999 option warrants, under identical terms and conditions with the exception of the exercise price, to two VPs appointed subsequent to the approval date of the stock option plan for VPs. The exercise price for each option warrant allotted to the two additional offerees pursuant to the plan is NIS 29.85, 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 November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option warrant in any lot of the additional option warrants 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.

Concurrently with approval of this allotment, 1,300,000 options, out of the first allotment with respect to two VPs who are no longer employed by the Bank, have expired.

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	Lot 4	Lot 5	Total
Allotment approved March 29, 2009						
Number of options (in thousands)	910	910	910	910	910	4,550
Annualized standard deviation	32.75%	32.04%	30.95%	30.11%	30.27%	
Exercise price (in NIS)	21.18	21.18	21.18	21.18	21.18	
Risk-free interest rate	0.65%	0.77%	0.92%	1.09%	1.28%	
Term to exercise (in years)	4.1	4.6	5.1	5.6	6.1	
Fair value per single option	4.78	5.02	5.19	5.39	5.77	
Total fair value per lot (NIS in thousands)	4,346	4,569	4,724	4,907	5,254	23,800
Allotment approved November 9, 2009						
Number of options (in thousands)	65	260	260	260	260	1,105
Annualized standard deviation	35%	34%	33%	33%	32%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.46%	0.65%	0.83%	1.02%	1.20%	
Term to exercise (in years)	3.6	4.1	4.6	5.1	5.6	
Fair value per single option	8.00	8.39	8.73	9.16	9.44	
Total fair value per lot (NIS in thousands)	520	2,181	2,270	2,381	2,455	9,807

Note 16.A. – Share-based Payment Transactions (continued)

Details of the number of stock options and their exercise price are as follows:

		2009
	Number of stock options	Weighted average exercise price (in NIS)
Granted during the year [1]	6,954,999	23.03
Forfeited during the year	1,300,000	21.74
In circulation at year end [2]	5,654,999	23.32

(1) The weighted average fair value of stock options granted during the year, upon measuring, was NIS 5.81.
(2) Stock options in circulation at year end by exercise price range:

		December 31, 2009
Exercise price per option (NIS)	17-24	25-32
Number of options	4,550,000	1,104,999
Weighted average exercise price (in NIS)	21.74	29.85
Weighted average remaining contractual term (in years)	6.48	6.48
Of which vested:		
Number of options	-	-
Weighted average exercise price (in NIS)	-	-

3. Stock option plan for employees

A. On July 19, 2005, after approval by the Bank's Audit Committee and Board of Directors, stock options were granted to executive management, division and sector managers, and department and branch managers of the Bank and its subsidiaries ("the offerees") in conjunction with a compensation planned aimed at encouraging them to contribute to business development of the Bank and its subsidiaries, and to align interests of the offerees with that of the Bank and its subsidiaries. Allotted in accordance with the plan will be up to 12,000,000 options, which may be exercised for shares, NIS 0.1 par value each. As of December 31, 2009, a total of 11,379,103 options have been allotted to 338 offerees.

The options will vest in 3 annual installments (25%, 35% and 40%), each at the end of every year from the date the options are granted. For some of the offerees, the number of options that will vest in each installment will be determined subject to meeting certain threshold conditions of "quality level". The offerees will be eligible to exercise the options until the end of four years from the date granted, and to receive for them shares in the Bank at a value totaling the balance of the theoretical profit included in the options on the exercise date. The exercise price of the shares will be based, for each grant, on the stock market value of the Bank's shares on the grant date plus linkage to the CPI, and is subject to adjustments deriving from the distribution of cash dividends and/or bonus shares, as well as issuance of rights of the Bank.

Note 16.A. – Share-based Payment Transactions (continued)

The theoretical value of the benefit for the 12,000,000 options that were approved, in accordance with accounting treatment rules of Accounting Standard 24, is estimated at NIS 53 million. The value of the benefit, which includes salary tax, as recorded on the Bank’s financial statements, is estimated at June 30, 2005 at NIS 62 million. The value of this benefit will be included in the Bank’s books of account, beginning from the third quarter of 2005 and will be spread over 3 years.

The theoretical value of the benefit was determined using the Black and Scholes model. Annualized standard deviation for the 4-year period preceding the original allocation date is 22.5%. The option term in the model was set at 4 years (based on the last exercise date). The risk-free interest rate was based on the gross yield to maturity for “Galil” and “Sagi” government bonds, CPI-linked and bearing fixed interest, as published by the Bank of Israel in June 2005 near the allocation date, and based on the option term, amounting to 2.7%. No assumptions were made as to dividend distribution.

On March 2, 2009, the Bank Board of Directors, having received approval from the Bank Audit Committee dated March 2, 2009, resolved to extend the exercise period of all options granted to employees and officers of the Bank and its subsidiaries in accordance with this stock option plan, not yet exercised into Bank shares, by a further 2 years. The extension of the exercise period for these options is only a benefit to offerees who own the options under the plan.

Pursuant to Accounting Standard no. 24 "Share-based Payment", the Bank is required to recognize the impact of extension of option exercise periods, which increases their fair value, equal to the difference between the option's fair value immediately after extension of the exercise period and their fair value immediately before the decision by the Board of Directors ("the additional fair value").

The additional fair value for the options has been calculated using the Black & Scholes model, based on the following data and assumptions:

- The exercise price for the options are as determined upon the original grant date, adjusted for the Consumer Price Index known upon approval of the extension.
- The share price was determined using the closing price for Bank shares on the stock exchange on the trading day preceding the data of approval by the Board of Directors of this extension.
- The expected duration to exercise for the options included in lots fully vested as of the valuation date were assumed to be half of the remaining period from the date of approval of this extension until expiration of the options included in said lot.
- The standard deviation is based on historical volatility of Bank shares, in accordance with the expected terms to option exercise, and has been calculated separately for each lot.
- The interest rate for calculation of the option fair value is based, in accordance with Accounting Standard no. 24, on interest rates for risk-free, CPI-linked NIS-denominated assets as published by the Bank of Israel from time to time, for a term equal to the expected duration until each lot is exercised.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is %.
- The fair value calculation assumes that the option warrants would not be listed for trading on the stock exchange.

Note 16.A. – Share-based Payment Transactions (continued)

Below are data used for this calculation:

		As of March 1, 2009	
	Original exercise period	Modified exercise period	Total change
Annualized standard deviation	41.1% - 57.4%	34.6% - 44.1%	
Bank share price (in NIS)	17.80	17.80	
Average effective exercise price (in NIS)	19.03	19.03	
Discount rate	1.84%	1.64%	
Average expected duration to exercise (in years)	0.31	1.31	
Average value per 1 option (in NIS)	1.59	3.30	1.71
Number of options (in millions)	6.6	6.6	
Total option value (NIS in millions)	10.5	21.9	11.4

The additional fair value of the options due to extension of their exercise period (6,632,256 options allotted in accordance with the plan and not yet then exercised or expired), amounting to NIS 11.4 million (NIS 13.2 million including payroll tax), was recorded as an expense on the Bank's 2009 financial statements.

Details of the number of stock options and their exercise price are as follows:

		2009		2008
	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)
In circulation at year start	6,695,511	18.70	8,042,604	18.84
Granted during the year	-	-	-	-
Forfeited during the year	23,178	25.49	218,692	20.53
Exercised during the year (1)	4,861,629	19.05	1,128,401	17.11
In circulation at year end (2)	1,810,704	22.36	6,695,511	18.70

(1) The weighted average share price upon exercise of options into shares during 2009 was NIS 29.42 (2008 – NIS 26.89).
(2) Stock options in circulation at year end by exercise price range:

	December 31, 2009		December 31, 2008	
Exercise price per option (NIS)	17-24	25-32	17-24	25-32
Number of options	1,330,731	479,973	6,029,093	666,418
Weighted average exercise price (in NIS)	19.62	29.95	17.71	27.65
Weighted average remaining contractual term (in years)	1.7	2.9	2.6	3.8
Of which vested:				
Number of options	1,330,731	330,855	5,926,432	267,818
Weighted average exercise price (in NIS)	19.62	29.41	17.63	26.95

Note 16.A. – Share-based Payment Transactions (continued)

B. On May 19, 2008, the Bank Board of Directors resolved, after obtaining approval of the Bank Audit Committee and the recommendations of the Bank Board of Directors' Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for Bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries – as stated in the option plan and in the outline published on June 8, 2008 ("the outline"). No stock options would be granted, pursuant to the plan, to members of the Bank's Board of Directors, including the Chairman of the Board, nor to the Bank President.

In addition to approval of the option plan, as stated above, the Board of Directors resolved, after receiving approval of the Audit Committee and the recommendations of the Compensation and Management Committees, to approve a framework plan for bonus payment to Bank officers, excluding Board members, including the Chairman of the Board, and excluding the Bank President, for each of the years 2008-2012, *inter alia* by way of creating a pool for bonus payment to officers, as set forth in the framework. For details, see Note 16.D.

The option plan is for a term of 5 years and 90 days, starting on the date of option allotment in accordance with the plan. In conjunction with approval of the plan, the Board of Directors resolved that the number of option warrants to be used as a pool for allotment of option warrants pursuant to the plan, would include 32,500,000 option warrants, registered in the owner's name, not listed for trading on the Tel Aviv Stock Exchange, which would be granted at no cost to offerees, and which may be exercised for up to 32,500,000 Bank ordinary shares, NIS 0.1 par value each, subject to adjustments as set forth in the plan, and subject to achieving the eligibility conditions set forth there in.

The option warrants allotted to the trustee for each offeree, in accordance with the plan, will be allotted in 5 equal lots. The vesting period for each such lot would be at the end of each of the 1^{st}, 2^{nd}, 3^{rd}, 4^{th} and 5^{th} anniversaries of the allotment date of option warrants pursuant to the plan, respectively. The number of exercised shares, as stated above, is the maximum number of shares arising from exercise of all option warrants which may be allotted pursuant to the plan. However, the number of option warrants which the offerees may actually exercise, pursuant to terms of the plan, will be 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 stipulated in the option plan.

The personal eligibility rate for each offeree included in the group of branch-, department- and affiliate managers (as defined in the plan) to exercise the option warrants granted to them in accordance with the plan will be determined, in addition to the aforementioned, also by the quality rating assigned to them, as stipulatedin the option plan.

Note 16.A. – Share-based Payment Transactions (continued)

Furthermore, allotment of the full number of exercised shares is merely theoretical, since in actual fact the offerees would not be allotted the full number of exercised shares arising from the option warrants which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned option warrants, as stipulated in the option plan.

The exercise price for each of the option warrants allotted pursuant to the plan was determined based on the closing price of the Bank's ordinary shares on the stock exchange on July 7, 2008 – the final trading day preceding the allotment date of option warrants to the offeree. The exercise price is NIS 25.15 plus linkage differentials to the Consumer Price Index starting on the allotment date, adjusted for dividends to be distributed by the Bank.

On July 8, 2008, 28,625,300 option warrants were allotted, in accordance with the plan, at no cost to 313 offerees who are Bank officers, branch-, department- and affiliate managers, as well as other employees of the Bank and its subsidiaries, as set forth in the option plan.

The option warrants pursuant to the plan were allotted in accordance with terms of the work income track, via a trustee, pursuant to provisions of Section 102 of the Profit Tax Ordinance (New Version), 1961 including all regulations, rules, circulars and guidelines issued based there upon.

On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank Audit Committee dated November 23, 2008, to extend the exercise periods of all option warrants allotted in accordance with the plan and the framework, and which would be allotted thereby in the future, by 24 months.
Accordingly, the exercise period for each lot of the option warrants allotted or to be allotted pursuant to the option plan, including all option warrants allotted on July 8, 2008, would be extended by 24 months, to end after 7 years and 90 days from the date of allotment, rather than after 5 years and 90 days from the date of allotment, as set forth in the original plan.

For recording the expense in the Bank's financial statements, and based on the strategic 5-year plan, as stated above, management has estimated a range of annual rates of return (though not linear) for each plan year (2008-2012) up to an 18% annual rate of return in 2012. Using this range, 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 has been estimated, as determined in the framework.

On November 24, 2008, the Bank Board of Directors approved an updated strategic plan, whereby the Bank's objective is to achieve an annual rate of return of 18% in 2013, rather than in 2012, as stipulated in the strategic plan prior to its update. Accordingly, management's estimate with regard to the framework of annual rates of return has been updated for the purpose of recording this expense in the Bank's financial statements.

Note 16.A. – Share-based Payment Transactions (continued)

The theoretical benefit value of the option warrants currently allotted, as satted above, calculated in accordance with accounting principles in Accounting Standard no. 24, including adjustment of the option value with respect to the change in option terms and the impact of the change in number of options expected to vest, amounted to NIS 93 million (NIS 108 million including payroll tax), compared to NIS 115 million (NIS 133 million including payroll tax) prior to this change.

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's estimate of the range of annual rates of return, as stated above, as well as based on Bank management's 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.

Adjustment of the benefit value with respect to the change in option terms is the difference between the fair value of the options, under their original terms, on the date of change in the terms, and their fair value under the new terms on the same date.

The theoretical benefit value is recorded in the Bank's accounts starting on the grant date and over a 5-year period. Management estimates with regard to the range of annual rates of return and churn rates are reviewed and updated on an on-going basis, and the extent of total expenditure recorded in the financial statements is updated accordingly.

The theoretical benefit value of the option warrants was determined using the Black and Scholes model. Standard deviation was separately calculated for each lot, based on daily share prices in a period equal to the expected life of each lot. The option term in the model was determined based on the average time between the vesting period and the option expiration date (Simplified Approach).

The rate of risk-free interest is determined based on gross yield to maturity for CPI-linked government bonds bearing fixed interest ("Galil"), for a term equal to the expected life to exercise of each lot.

Note 16.A. – Share-based Payment Transactions (continued)

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 on July 8, 2008, as of the grant date and as of the date of modification of terms:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
As of July 8, 2008 – the grant date					
Annualized standard deviation	26.05%	26.23%	25.44%	24.71%	24.98%
Exercise price (in NIS)	25.15	25.15	25.15	25.15	25.15
Interest	2.03%	2.20%	2.34%	2.47%	2.58%
Term to exercise (in years)	3.10	3.60	4.10	4.60	5.10
Fair value per single option	5.25	5.79	6.13	6.45	6.95
As of November 24, 2008 – for the original exercise period (exercise price unchanged)					
Annualized standard deviation	29.84%	29.22%	28.76%	28.35%	27.43%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.08%	4.11%	4.13%	4.15%	4.16%
Term to exercise (in years)	2.75	3.25	3.75	4.25	4.75
Fair value per single option	1.17	1.43	1.69	1.94	2.12
As of November 24, 2008 – for the updated exercise period (exercise price unchanged)					
Annualized standard deviation	28.76%	28.35%	27.43%	26.77%	27.18%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.13%	4.15%	4.16%	4.18%	4.19%
Term to exercise (in years)	3.75	4.25	4.75	5.25	5.75
Fair value per single option	1.69	1.94	2.12	2.32	2.66
Value of change per single option	0.52	0.51	0.43	0.38	0.54
Cumulative value per single option	5.77	6.30	6.56	6.83	7.49

On June 29, 2009, the Bank Board of Directors approved allotment of a further 2,679,300 options, under identical terms and conditions except for the exercise price, to two officers and 37 additional employees. The exercise price for each option warrant allotted to offerees pursuant to the plan is NIS 23.6, 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 June 28, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as stated above, the theoretical benefit value of the options amounted to NIS 11 million (NIS 12 million including payroll tax).

Note 16.A. – Share-based Payment Transactions (continued)

On November 9, 2009, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 1,085,432 option warrants, under identical terms and conditions with the exception of the exercise price, to four officers of the Bank. The exercise price for each option warrant allotted to the four additional offerees pursuant to the plan is NIS 29.85, 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 November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option warrant in any lot of the additional option warrants 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.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as set forth above, the theoretical benefit value of the options amounted to NIS 6 million (NIS 7 million including payroll tax).

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 on June 28, 2009 and on November 9, 2009:

	Lot 1	Lot 2	Lot 3	Lot 4	Total
Allotment approved June 29, 2009					
Number of options (in thousands)	670	630	670	669	2,679
Annualized standard deviation	34.27%	33.29%	32.65%	31.55%	
Exercise price (in NIS)	23.60	23.60	23.60	23.60	
Risk-free interest rate	0.91%	1.20%	1.50%	1.71%	
Term to exercise (in years)	3.7	4.2	4.7	5.2	
Fair value per single option	6.40	8.75	7.15	7.45	
Allotment approved November 9, 2009					
Number of options (in thousands)	248	279	279	279	1,085
Annualized standard deviation	34.9%	33.9%	33.1%	32.5%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.49%	0.68%	0.87%	1.05%	
Term to exercise (in years)	3.7	4.2	4.7	5.2	
Fair value per single option	8.05	8.43	8.82	9.21	

Note 16.A. – Share-based Payment Transactions (continued)

Details of the number of stock options and their exercise price are as follows:

	2009		2008	
	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)
In circulation at year start	28,342,400	25.15	-	-
Granted during the year (1)	3,349,132	25.66	28,625,300	25.15
Forfeited during the year	6,280,642	26.51	282,900	25.15
Exercised during the year (2)	135,501	26.53	-	-
In circulation at year end (3)	25,275,389	26.42	28,342,400	25.15

(1) The weighted average fair value of stock options granted during the year, upon measuring, was NIS 7.20 (in 2008 – NIS 6.48).
(2) The weighted average share price upon exercise of options into shares during 2009 was NIS 33.31.
(3) Stock options in circulation at year end by exercise price range:

	December 31, 2009		December 31, 2008	
Exercise price per option (NIS)	17-24	25-32	17-24	25-32
Number of options	2,207,500	23,067,889	-	28,342,400
Weighted average exercise price (in NIS)	23.64	26.69	-	25.15
Weighted average remaining contractual term (in years)	5.98	5.79	-	4.77
Of which vested:				
Number of options	-	532,937	-	-
Weighted average exercise price (in NIS)	-	26.53	-	-

Note 17 - Assets and Liabilities by Linkage Basis - Consolidated

As of December 31, 2009

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency [1]			Non-	
		CPI-	US		Other	monetary	
	Non-linked	linked	dollars	Euro	currencies	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 17 - Assets and Liabilities by Linkage Basis - Consolidated (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency [1]			Non-monetary items[2]	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	4,686	2,483	2,808	858	203	-	11,038
Securities	2,755	1,953	2,724	1,428	19	[4]380	9,259
Securities loaned or sold in conjunction with repurchase agreements	12	-	-	-	-	-	12
Loans to the public [3]	[5]40,787	34,211	8,814	2,140	2,971	-	88,923
Loans to the Government	-	1	1	-	-	-	2
Investments in investees	26	-	-	-	-	(9)	17
Buildings and equipment	-	-	-	-	-	1,476	1,476
Other assets	2,577	220	834	69	315	144	4,159
Total assets	50,843	38,868	15,181	4,495	3,508	1,991	114,886
Liabilities							
Deposits from the public	49,273	22,999	13,166	3,818	2,523	-	91,779
Deposits from banks	155	1,026	594	20	72	-	1,867
Deposits from the Government	4	200	38	-	-	-	242
Securities loaned or sold in conjunction with repurchase agreements	-	972	-	-	-	-	972
Debentures and subordinated notes	-	6,837	-	-	-	-	6,837
Other liabilities	[5]4,809	532	1,061	134	164	186	6,886
Total liabilities	54,241	32,566	14,859	3,972	2,759	186	108,583
Difference	(3,398)	6,302	322	523	749	1,805	6,303
Impact of hedging derivatives:							
Derivatives (except for options)	[6] 1,212	[6] (1,212)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	[6] 4,558	[6] (3,801)	(537)	325	(545)	-	-
Net in-the-money options (in terms of underlying asset)	748	-	(96)	(673)	3	18	-
Net out-of-the-money options (in terms of underlying asset)	152	-	113	(164)	(82)	(19)	-
Total	3,272	1,289	(198)	11	125	1,804	6,303
Net in-the-money options (capitalized par value)	(1,751)	-	1,100	366	(62)	347	-
Net out-of-the-money options (capitalized par value)	662	-	(581)	266	(379)	32	-

(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 276 million with respect to shares received to secure credit - see footnote (3) in Note 3 to the financial statements for 2008.
(5) Reclassified. For more information, see Note 4.A.4).
(6) Reclassified.

Note 17 - Assets and Liabilities by Linkage Basis - Bank (continued)

As of December 31, 2009

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency [1]			Non-	
		CPI-	US		Other	monetary	
	Non-linked	linked	dollars	Euro	currencies	items[2]	Total
Assets							
Cash and deposits with banks	6,837	371	1,080	150	126	-	8,564
Securities	1,418	462	2,191	1,267	41	87	5,466
Securities loaned or sold in conjunction with repurchase agreements	307	-	-	-	-	-	307
Loans to the public [3]	42,874	34,451	7,863	2,184	2,400	-	89,772
Loans to the Government	-	1	300	-	-	-	301
Investments in investees [4]	28	357	12	-	-	1,207	1,604
Buildings and equipment	-	-	-	-	-	1,372	1,372
Other assets	1,392	433	279	19	45	134	2,302
Total assets	52,856	36,075	11,725	3,620	2,612	2,800	109,688
Liabilities							
Deposits from the public	43,744	22,695	12,563	4,653	2,832	-	86,487
Deposits from banks	2,149	2,884	1,024	259	80	-	6,396
Deposits from the Government	-	171	36	-	-	-	207
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	-	4,825	-	-	-	-	4,825
Other liabilities	3,649	831	391	49	81	240	5,241
Total liabilities	49,542	31,406	14,124	4,961	2,993	240	103,156
Difference	3,314	4,669	(2,289)	(1,341)	(381)	2,560	6,532
Impact of hedging derivatives:							
Derivatives (except for options)	1,534	(1,534)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	(1,147)	(1,176)	1,571	831	(79)	-	-
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	2,197	1,959	27	(31)	(181)	2,561	6,532
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.
(4) Includes investments in overseas subsidiaries totaling NIS 294 million.

Note 17 - Assets and Liabilities by Linkage Basis - Bank (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency [1]			Non-	
		CPI-	US		Other	monetary	
	Non-linked	linked	dollars	Euro	currencies	items[2]	Total
Assets							
Cash and deposits with banks	5,068	1,532	2,606	974	295	-	10,475
Securities	381	890	2,669	1,422	-	(5)380	5,742
Securities loaned or sold in conjunction with repurchase agreements	12	-	-	-	-	-	12
Loans to the public [3]	34,633	31,324	8,711	1,894	2,784	-	79,346
Loans to the Government	-	1	1	-	-	-	2
Investments in investees [4]	26	129	12	-	-	1,261	1,428
Buildings and equipment	-	-	-	-	-	1,311	1,311
Other assets	2,491	220	833	69	308	144	4,065
Total assets	42,611	34,096	14,832	4,359	3,387	3,096	102,381
Liabilities							
Deposits from the public	42,040	21,215	12,769	3,639	2,479	-	82,142
Deposits from banks	582	1,219	780	137	74	-	2,792
Deposits from the Government	-	197	37	-	-	-	234
Securities loaned or sold in conjunction with repurchase agreements	-	972	-	-	-	-	972
Debentures and subordinated notes	-	4,430	-	-	-	-	4,430
Other liabilities	3,836	513	1,053	134	157	166	5,859
Total liabilities	46,458	28,546	14,639	3,910	2,710	166	96,429
Difference	(3,847)	5,550	193	449	677	2,930	5,952
Impact of hedging derivatives:							
Derivatives (except for options)	(6) 1,212	6) (1,212)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	(6) 4,023	(6) (3,266)	(508)	390	(639)	-	-
Net in-the-money options (in terms of underlying asset)	748	-	(96)	(673)	3	18	-
Net out-of-the-money options (in terms of underlying asset)	152	-	113	(164)	(82)	(19)	-
Total	2,288	1,072	(298)	2	(41)	2,929	5,952
Net in-the-money options (capitalized par value)	(1,751)	-	1,100	366	(62)	347	-
Net out-of-the-money options (capitalized par value)	662	-	(581)	266	(379)	32	-

(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 investments in overseas subsidiaries totaling NIS 278 million.
(5) Includes NIS 276 million with respect to shares received to secure credit - see footnote (3) in Note 3 to the financial statements for 2008.
(6) Reclassified.

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis (1) - Consolidated

As of December 31, 2009

Reported amounts (NIS in millions)

	Expected contractual future cash flows				
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years
Israeli currency - non-linked					
Assets (3)	17,245	2,691	10,166	5,832	4,607
Liabilities	43,629	2,854	5,221	1,351	961
Difference	(26,384)	(163)	4,945	4,481	3,646
Derivatives (except for options)	(2,110)	(2,172)	4,265	1,238	(489)
Options (in terms of underlying asset)	(433)	(74)	(1,036)	4	35
Israeli currency - linked to the CPI					
Assets	469	974	4,128	4,336	4,043
Liabilities	569	845	3,872	4,491	4,035
Difference	(100)	129	256	(155)	8
Derivatives (except for options)	(4)	(474)	(2,212)	(757)	388
Options (in terms of underlying asset)	-	-	-	-	-
Foreign currency - Israeli operations (4)					
Assets (3)	4,041	1,039	1,638	1,358	1,032
Liabilities	9,644	5,909	2,225	422	87
Difference	(5,603)	(4,870)	(587)	936	945
Derivatives (except for options)	2,114	2,646	(2,053)	(481)	101
Options (in terms of underlying asset)	402	71	1,031	(1)	-
Foreign currency - overseas operations					
Assets	1,336	762	1,043	651	406
Liabilities	1,554	1,189	864	185	108
Difference	(218)	(427)	179	466	298
Non-monetary items					
Assets	1	-	-	-	-
Liabilities	172	-	-	-	-
Difference	(171)	-	-	-	-
Derivatives (except for options)	-	-	-	-	-
Options (in terms of underlying asset)	31	3	5	(3)	(35)
Total					
Assets	23,092	5,466	16,975	12,177	10,088
Liabilities	55,568	10,797	12,182	6,449	5,191
Difference	(32,476)	(5,331)	4,793	5,728	4,897

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each cash flow. The data is stated net of provisions for doubtful debts.
(2) Includes assets totaling NIS 570 million which are past due.
(3) Includes NIS 6,239 million of loans under debitory account conditions and NIS 220 million exceeding limits in debitory account facilities.
(4) Includes linked to foreign currency.
(5) As included in Note 17 "Assets and Liabilities Classified According to Linkage Basis", including off-balance sheet items related to derivatives.
(6) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this note, for the monetary item to its balance sheet balance.

	Expected contractual future cash flows - continued					Balance sheet balance [5]		Contractual
3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	rate of return [6]
3,000	3,163	8,352	8,155	1,911	65,122	[2] 1,930	60,927	3.26%
669	1,128	1,342	127	136	57,418	17	56,644	2.70%
2,331	2,035	7,010	8,028	1,775	7,704	1,913	4,283	
(80)	(101)	333	-	-	884	-	655	
-	-	-	-	-	(1,504)	-	(1,504)	
3,570	3,951	12,777	10,921	2,377	47,546	[2] 30	37,182	5.21%
3,875	4,312	11,058	5,656	893	39,606	46	32,337	4.34%
(305)	(361)	1,719	5,265	1,484	7,940	(16)	4,845	
52	174	(313)	(1)	-	(3,147)	-	(2,978)	
-	-	-	-	-	-	-	-	
891	567	3,390	1,579	361	15,896	[2] 69	12,455	5.32%
16	5	9	27	-	18,344	-	18,148	3.35%
875	562	3,381	1,552	361	(2,448)	69	(5,693)	
28	(73)	(20)	1	-	2,263	-	2,323	
-	-	-	-	-	1,503	-	1,503	
217	389	1,801	162	1	6,768	-	6,149	2.55%
106	103	170	-	-	4,279	-	4,185	1.32%
111	286	1,631	162	1	2,489	-	1,964	
-	-	-	-	-	1	1,725	1,726	
-	-	-	-	-	172	68	240	
-	-	-	-	-	(171)	1,657	1,486	
-	-	-	-	-	-	-	-	
-	-	-	-	-	1	-	1	
7,678	8,070	26,320	20,817	4,650	135,333	3,754	118,439	
4,666	5,548	12,579	5,810	1,029	119,819	131	111,554	
3,012	2,522	13,741	15,007	3,621	15,514	3,623	6,885	

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis [(1)] - The Bank (continued)

As of December 31, 2009

Reported amounts (NIS in millions)

	Expected contractual future cash flows				
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years
Israeli currency - non-linked					
Assets [(3)]	14,217	2,362	8,425	4,708	3,730
Liabilities	37,162	2,415	6,128	1,126	735
Difference	(22,945)	(53)	2,297	3,582	2,995
Derivatives (except for options)	(2,110)	(2,372)	4,265	1,238	(489)
Options (in terms of underlying asset)	(433)	(74)	(1,036)	4	35
Israeli currency - linked to the CPI					
Assets	435	739	3,428	4,172	3,827
Liabilities	569	1,311	3,880	4,605	4,018
Difference	(134)	(572)	(452)	(433)	(191)
Derivatives (except for options)	(4)	(274)	(2,212)	(757)	388
Options (in terms of underlying asset)	-	-	-	-	-
Foreign currency - Israeli operations [(4)]					
Assets [(3)]	3,979	1,039	1,625	1,357	1,022
Liabilities	9,516	5,958	2,222	421	87
Difference	(5,537)	(4,919)	(597)	936	935
Derivatives (except for options)	2,114	2,646	(2,053)	(481)	101
Options (in terms of underlying asset)	402	71	1,031	(1)	-
Foreign currency - overseas operations					
Assets	534	694	1,348	651	406
Liabilities	1,008	1,138	1,176	185	108
Difference	(474)	(444)	172	466	298
Non-monetary items					
Assets	1	-	-	-	-
Liabilities	172	-	-	-	-
Difference	(171)	-	-	-	-
Derivatives (except for options)	-	-	-	-	-
Options (in terms of underlying asset)	31	3	5	(3)	(35)
Total					
Assets	19,166	4,834	14,826	10,888	8,985
Liabilities	48,427	10,822	13,406	6,337	4,948
Difference	(29,261)	(5,988)	1,420	4,551	4,037

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.
(2) Includes assets totaling NIS 559 million which are past due.
(3) Includes NIS 5,495 million of loans under debitory account conditions and NIS 170 million exceeding limits in debitory account facilities.
(4) Includes linked to foreign currency.
(5) As included in Note 17 "Assets and Liabilities Classified According to Linkage Basis", including off-balance sheet items related to derivatives.
(6) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this note, for the monetary item to its balance sheet balance.

	Expected contractual future cash flows - continued						Balance sheet balance [5]		Contractual
	3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	rate of return [6]
	2,519	2,887	7,874	8,152	1,911	56,785	(2) 1,872	52,856	3.92%
	611	1,129	448	132	136	50,022		49,542	2.54%
	1,908	1,758	7,426	8,020	1,775	6,763	1,872	3,314	
	(80)	(101)	333	-	-	684	-	387	
	-	-	-	-	-	(1,504)	-	(1,504)	
	3,532	3,938	13,322	10,921	2,377	46,691	(2) 27	36,075	5.32%
	3,868	4,111	10,603	4,796	893	38,654	46	31,406	4.46%
	(336)	(173)	2,719	6,125	1,484	8,037	(19)	4,669	
	52	174	(313)	(1)	-	(2,947)	-	(2,710)	
	-	-	-	-	-	-	-	-	
	891	567	3,402	1,579	361	15,822	(2) 69	12,372	5.33%
	16	5	21	27	-	18,273	-	18,068	3.36%
	875	562	3,381	1,552	361	(2,451)	69	(5,696)	
	28	(73)	(20)	1	-	2,263	-	2,323	
	-	-	-	-	-	1,503	-	1,503	
	217	389	1,801	162	1	6,203	-	5,585	2.99%
	106	103	170	-	-	3,994	-	3,900	1.57%
	111	286	1,631	162	1	2,209	-	1,685	
	-	-	-	-	-	1	2,799	2,800	
	-	-	-	-	-	172	68	240	
	-	-	-	-	-	(171)	2,731	2,560	
	-	-	-	-	-	-	-	-	
	-	-	-	-	-	1	-	1	
	7,159	7,781	26,399	20,814	4,650	125,502	4,767	109,688	
	4,601	5,348	11,242	4,955	1,029	111,115	114	103,156	
-	2,558	2,433	15,157	15,859	3,621	14,387	4,653	6,532	

Note 18 - Assets and Liabilities by Linkage Basis and by term to maturity [(1)] - consolidated and the Bank (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Expected contractual future cash flows				
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years
Consolidated					
Assets [(2)]	[(7)] 20,723	8,519	18,971	14,176	9,718
Liabilities	[(7)] 52,163	11,589	14,312	7,469	5,020
Difference	(31,440)	(3,070)	4,659	6,707	4,698
The Bank					
Assets [(3)]	18,782	7,045	16,121	11,210	8,406
Liabilities	48,182	10,426	12,484	5,675	4,329
Difference	(29,400)	(3,381)	3,637	5,535	4,077

(1) Reclassified.
(2) Includes NIS 6,348 million of loans under debitory account conditions and NIS 289 million exceeding limits in debitory account facilities.
(3) Includes NIS 6,348 million of loans under debitory account conditions and NIS 243 million exceeding limits in debitory account facilities.
(3) Includes assets totaling NIS 659 million which are past due.
(4) Includes assets totaling NIS 652 million which are past due.
(5) As included in Note 17 "Assets and Liabilities Classified According to Linkage Basis", .
(6) Reclassified. For more information, see Note 4.A.4).

	Expected contractual future cash flows - continued						Balance sheet balance [6]	
	3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total
	7,466	6,247	24,874	18,654	3,922	133,270	[4] 4,123	[7] 114,886
	4,350	4,245	13,016	4,520	968	117,652	132	[7] 108,583
	3,116	2,002	11,858	14,134	2,954	15,618	3,991	6,303
	6,630	5,635	23,142	17,711	3,781	118,463	[5] 5,154	102,381
	4,051	4,038	11,113	3,396	968	104,662	84	96,429
	2,579	1,597	12,029	14,315	2,813	13,801	5,070	5,952

Note 19 - Contingent Liabilities and Special Commitments

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
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	447	531	447	531
- Loan guarantees	2,747	(1) 2,744	2,726	2,654
- Guarantees to purchasers of homes	5,274	5,827	5,274	5,360
- Other guarantees and liabilities (3)	4,019	4,208	3,995	4,183
- Unutilized revolving credit card facilities	6,379	(2) 11,878	3,771	(2) 10,706
- Unutilized debitory account and other credit facilities in accounts available on demand	19,008	17,945	17,488	17,427
- Irrevocable commitments for loans approved but not yet granted	5,650	3,834	5,650	2,853
- Commitments to issue credit to savers (4)	1,777	1,704	1,777	1,704
- Commitments to issue guarantees	3,102	3,136	3,102	3,088

(1) Reclassified.
(2) Restated.
(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 103 million (December 31, 2008 – NIS 147 million), see Note 19.D.2) and Note 15.B.
(4) See Note 19.D.20.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

Reported amounts (NIS in millions)

B. Off-balance sheet liability for activities based on extent of collection [(1)]

	Consolidated	
	2009	2008
1. Balance of loans from deposits based on extent of collection [(2)]		
Israeli currency - linked to the CPI	15,222	15,849
Israeli currency - non-linked	1,642	2,175
Foreign currency	445	297
Total	17,309	18,321

2. Cash flows with respect to collection commissions on activities based on extent of collection [(3)]

	2009							2008
	Up to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Total	Total
Cash flows of futures contracts	90	172	160	362	229	7	1,020	1,168
Expected future cash flows net of management's estimate of early repayments	90	169	153	327	168	4	911	1,045
Discounted expected future cash flows net of management's estimate of early repayments [(4)]	89	159	135	259	112	1	755	804

3. Information on loans made available during the year

	Consolidated	
	2009	2008
Loans out of deposits according to extent of collection	352	597
Standing loans and grants	182	229

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).
(2) Standing loans and Government deposits given in connection with them totaling NIS 4,254 million (previous year - NIS 4,660 million) are not included in this table.
(3) Includes unlinked shekel sector and foreign currency sector.
(4) Discounted at the rate of 3.25% (2008 - 4.4%).

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2009	2008	2009	2008
C. Special commitments:				
Obligations with respect to:				
Long-term rental contracts (1)	512	392	473	305
Computerization and software service contracts	53	72	53	72
Acquisition and renovation of buildings	59	15	59	15
Receipt of deposits on future dates (2)	105	5	105	5

(1) The Bank and subsidiaries have long-term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

	Consolidated		The Bank	
	2009	2008	2009	2008
First year	55	40	43	29
Second year	48	39	40	29
Third year	45	38	39	27
Fourth year	39	33	36	25
Fifth year	34	29	31	23
Sixth year and thereafter	291	213	284	172
Total	512	392	473	305

(2) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set in advance on the contract date.

Note 19 - Contingent Liabilities and Special Commitments (continued)

D. Contingent liabilities and other special commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 849 million as of December 31, 2009. The Bank's share of the fund as of December 31, 2009 is estimated at NIS 75 million (as of December 31, 2008 – NIS 106 million). The size of the risk fund is updated semi-annually, in early March and in early September, based on the average daily total clearing volume in the six months ended the December or June prior to the update date, as the case may be – but no less than NIS 150 million. Each member's share in the risk fund is determined by the ratio between the member's clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.
   In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008, each member of the clearing house will deposit in cash at least 25% of its share in the risk fund.
   See Note 15.A regarding liens that the Bank has undertaken to furnish for this liability.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a subsidiary of the TASE ("MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by a number of members of the TASE that are not members of the MAOF Clearinghouse, for their customers.
   The amount of the liability for these customers, as of the balance sheet date, totals NIS 309 million (December 31, 2008 – NIS 170 million).
   Likewise, the Bank has undertaken to refund its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 707 million as of December 31, 2009. The Bank's share of the fund as of December 31, 2009 is estimated at NIS 103 million (as of December 31, 2008 – NIS 147 million).
   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008, each member of the clearing house will deposit in cash at least 25% of its share in the risk fund.

   For information regarding charges that the Bank undertook to furnish with respect to these liabilities, see Note 15.B.

3) The Bank has made undertakings to the Tel Aviv Stock Exchange ("TASE") for operations of one company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by that company.

4) Pursuant to the sale agreement of provident fund operations which were managed by the Bank (for details see Note 6.E.2)), for 5 years starting on March 5, 2007, the Bank guarantees to members of the provident funds and the severance pay fund to refund nominal principal amounts deposited by them on time. As of the balance sheet date, the funds' assets are deposited mostly in bonds approved for investment, and they exceed the amount of the Banks' guarantees. The principal amount of contributions as of December 31, 2009 amounted to NIS 2,440 million (as of December 31, 2008 - NIS 2,584 million). The fair value of this guarantee, which constitutes a put option written by the Bank, is not material.

Note 19 - Contingent Liabilities and Special Commitments (continued)

5) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:

   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.

   - These officers will be indemnified whether the claim is brought against them during their employment period at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

6) In December 2001, a General Meeting of the Bank's shareholders ratified the granting, in advance, of exemption from liability and undertook to indemnify the Board of Directors and other officers (collectively – "officers") by the Bank. According to the indemnification obligation, the Bank exempts its officers, in advance, from any liability thereto, due to damage to be caused to the Bank as a result of the breach of the duty of care by an officer toward the Bank in his activity as officer, by virtue of his being an officer of the Bank, and all that is stipulated in the indemnity undertaking.

   The cumulative indemnity amount to be paid by the Bank to all officers will not exceed 25% of the Bank's shareholders' equity as reported in its 2000 financial statements, adjusted for the changes in the CPI, beginning December 2000. The indemnification applies to all activities relating – directly or indirectly – to one or more of the events listed in the addendum to the indemnification undertaking.

   On October 28, 2004, the General Meeting of the Bank resolved to add to the Bank's indemnification undertaking toward the directors and officers in the Bank, which was approved in 2001, a clause prescribing that the indemnification undertaking will also apply in the event of a merger, as defined in the Companies Law, including any resolution, action, agreement or reporting related to the merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

Note 19 - Contingent Liabilities and Special Commitments (continued)

On February 16, 2009, the Bank Board of Directors resolved to provide a commitment to indemnify Bank employees who serve from time to time as officers of subsidiaries controlled by the Bank, and who do not serve as Board members or officers of the Bank, and to grant them letters of indemnification identical to those granted to officers and board members of the Bank.

7) In May 1998, General Meetings of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with the provisions of the Companies Ordinance.

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately - NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately - will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately - will be limited to NIS 1,000 million (linked to the CPI of March 1998).

In the context of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In November 2001, approval was given by General Meetings of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot ("Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot in November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

Note 19 - Contingent Liabilities and Special Commitments (continued)

Bank Tefahot undertook vis-a-vis Tefahot Issuance that, if it will be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot will pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

Pursuant to the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – “the officers”). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

   The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders’ equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholders’ equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

   In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

   Pursuant to the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

10) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its board of directors and approval of its audit committee, ratified an undertaking to indemnify (“indemnification letter”) the officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting (“date of record”), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

   Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

   Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers’ insurance policy as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

Note 19 - Contingent Liabilities and Special Commitments (continued)

Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policy will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholders' equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policy for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.

Beginning December 2002, Bank Adanim is one of the insured parties in the officers' insurance policy purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

In conjunction with the merger of Bank Adanim into the Bank (see Note 6.E.1), the Bank assumed this commitment.

11) 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 significant actions in which the amount claimed (excluding interest and fees) exceeds 1% of the Bank's shareholders' equity:

Note 19 - Contingent Liabilities and Special Commitments (continued)

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 his 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 his 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.

B. In December 2001, a statement of claim was filed against the Bank in Tel Aviv District Court in the amount of NIS 80 million. The plaintiffs allege that a bank clerk (who was suspended), when he was an employee of the Bank, executed numerous unlawful transactions in their accounts, without their permission and without their knowledge. The plaintiffs allege that as a result of these acts, they experienced a credit crisis, which required them to effect financial transactions that would not have been effected otherwise, as a result of which they allege that they sustained direct and indirect losses, in tens of millions of NIS.

   In January 2002, the Bank filed a statement of defense, in which it argued as preliminary arguments, inter alia, that the statue of limitations had expired for all of the plaintiffs' allegations relating to transactions executed more than seven years prior to the filing of the claim. It was also argued that the plaintiffs had received statements on what was occurring in their accounts, and that they cannot deny the accuracy of the contents of the Bank's books of account. In the body of the statement of defense, it was argued that the plaintiffs knew and/or should have known what was done in their accounts, and that unfortunately they were very negligent in examining their account statements, thus enabling the alleged transactions, which are denied by the Bank, to be executed in their accounts. It was further argued that the improper transactions, to the extent they were executed, were executed by a bank clerk at that time, acting on his own, and exceeding authority, and the Bank could not have prevented them with the reasonable means available to it.

   In May 2008, the plaintiff filed an amended statement of claim in the amount of NIS 102 million, and consequently the Bank has filed an amended statement of defense.

Note 19 - Contingent Liabilities and Special Commitments (continued)

C. In April 2003, a claim was filed against the Bank in Tel Aviv District Court, for NIS 12 thousand, as well as a motion for recognition as class action for the total payment of approximately NIS 300. The plaintiffs allege that the Bank must refund to them, personally and to the entire group, charges that were recorded in the seven years preceding the filing date of the claim, in accounts classified by the Bank as “legal customers”, for “treasury” and “journal”, which the Bank is not permitted to collect because of the Bank’s improper disclosure of the substance of the charges. The plaintiffs are requesting for themselves, in addition to the claim amount, fees for their filing of the claim and legal costs.

In view of the District Court’s opinion in a verdict dated April 2005, that the remedy it would have approved had the claim been accepted as a class action suit, would be to instruct the Bank to correct its accounts such that charges not in line with the verdict are cancelled, and to instruct the Bank to provide information to customers in legal proceedings of their accounts with the Bank - Bank exposure is to costs associated with compliance with Court instructions, and not to any monetary remedy over and above payment of fees for the plaintiff and his attorneys, as set forth above. The Bank complies with provisions of the verdict dated April 2005 from the date it received the verdict and thereafter.

D. In August 2003, an action was filed in Haifa District Court against five banks, including the Bank, as well as a motion for recognition as a class action ("the Action"). The amount of the action was left to the discretion of the Court.

In December 2003, the plaintiffs filed an amended action, in which they allege that the Bank does not comply with Amendment No. 2 to Proper Conduct of Banking Business Regulations (Service to Customer) (Proper Disclosure and Delivery of Documents), 2003, as amended by the Bank of Israel in August 2003. They allege that when they deposited checks in the Bank, they were not informed that a transaction recording fee would be charged in the account. The Bank argues that it had fulfilled the new rules of proper disclosure, as set forth in the aforementioned Amendment 2 of the Banking Regulations (Customer Service) (Proper Disclosure and Provision of Documents), 2003 with respect to the plaintiffs and to all of its customers. On March 1, 2009 the Court dismissed the plaintiffs' motion for recognition as class action.

E. In March 2004, an action and a motion for recognition as a class action were filed in Nazareth District Court against Bank Tefahot ("the Action"). The action was filed on behalf of borrowers of Bank Tefahot, in the amount of NIS 69 million.

The action alleges that Bank Tefahot overcharged interest on arrears beyond that permitted by law, and that it charged a commission for non-payment of a standing order for current repayments of a loan drawn by borrowers of Bank Tefahot. The action alleges that this commission should be deemed to be interest on the loan in arrears, so that this commission, together with the interest on arrears that Bank Tefahot charges for the period in arrears, exceeds the ceiling of permitted interest on arrears under the Interest Law, 1957, and the related legislation.

Note 19 - Contingent Liabilities and Special Commitments (continued)

In January 2007, the Supreme Court ruled to dismiss outright the motion for recognition as a class action, and ordered the parties to file their positions on the issue of the implications of the Class Actions Law, 2006, on this case. In May 2007, the Supreme Court ruled that processing of this appeal would be suspended pending a court decision in the action based on the same claim against the Bank, which was filed with the Haifa District Court by some of the plaintiffs in these proceedings, in June 2006 as stated in section 11(k) below. The ruling further stipulates that should the decision in the identical case under way at the Haifa District Court be appealed, both appeals may be reviewed concurrently when such a decision is handed down.

F. In October 2004, an action was lodged in Tel Aviv District Court against the Bank and against Bank Tefahot, as well as a motion for recognition as a class action. According to the statement of claim and the motion for recognition as a class action, the plaintiffs allege that their shares were acquired from them in a forced purchase and at a value below their fair value, in the process of a tender offer that the Bank published on June 24, 2004, to acquire the shares of Bank Tefahot, even though one of the plaintiffs accepted the tender offer in part. Therefore, the plaintiffs appealed, inter alia, to receive the remedy of appraisal under Section 338 of the Companies Law, 1999.

In the purchase offer, the Bank offered to purchase from Bank Tefahot shareholders all 6,909,842 of their shares, in exchange for NIS 49.50 per share (after amendment of the purchase offer).

As of the purchase offer date, the book value of Bank Tefahot's shareholders' equity was NIS 2.06 billion, and the value of Bank Tefahot, based on the share price in the purchase offer, was NIS 2.4 billion. The intrinsic value of the purchase offer was 118% of Bank Tefahot's (book value of) shareholders' equity as of March 31, 2004.

The plaintiffs allege that the amount of their personal claim is NIS 171 thousand, and for all of the plaintiffs that they are petitioning to represent, they estimate the amount of the claim at NIS 2,149 million.

In February 2009, the Court dismissed the plaintiffs' motion for recognition as a class action.

In March 2009, the plaintiffs appealed the Court decision.

In December 2009, the Supreme Court rejected the appeal without issuing an order as to expenses.

G. In March 2005, an action against the Bank was lodged against with Tel Aviv District Court in the amount of NIS 6 million, as well as a motion for recognition as a class action in an amount ranging between NIS 50 million, direct damage from the forced repayment of loans in foreign currency, as provided below, and between NIS 500 million, including addition for alleged damages sustained as a result of the initial damage ("the Action").

Note 19 - Contingent Liabilities and Special Commitments (continued)

The plaintiff alleges that the Bank forced the repayment of foreign currency loans before the end of the loan period, contrary to the customer's instructions, at the peak of the temporary devaluation in the NIS in the fall of 1988, when several months later, the NIS stabilized and returned to the original exchange rates. The plaintiff alleges that as a result of the forced repayment of the loans, a debt balance was created in his account, which prevented the execution of transactions in his account and increased his damages.

In October 2005, the Bank filed its response to the motion for recognition as a class action and argued that it had acted lawfully. In December 2008, the Court dismissed the plaintiffs' motion for recognition as a class action.

In February 2009, the plaintiff filed a motion for exemption from payment of fees and bond in an appeal they wish to file of the Court's decision to dismiss their motion for recognition as a class action.

In November 2009, the Court rejected the plaintiff's appeal.

H. In April 2006, a claim was lodged with Tel-Aviv District Court in the amount of NIS 100 million for damages allegedly sustained by the plaintiffs as a result of an alleged misrepresentation made to them by an employee of the Bank's Givatayim branch who has since been dismissed from employment with the Bank. Plaintiffs claim that they have deposited with the Bank over years large amounts totaling NIS millions, and made many investment transactions in various asset classes, mainly by daily telephone contact with an employee at the Bank branch, who carried out their instructions and reported to them on execution of their instructions and the balances in their accounts. The plaintiffs claim that according to reports of the Bank branch employee who handled their accounts, at the end of 2003 the balance of their accounts amounted to NIS 91 million. Based on this information, the plaintiffs claim they entered into a contract to purchase a house at a cost of over NIS 10 million. However, the plaintiffs claim, in retrospect after signing the contract to buy the house, they discovered that reports made by the Bank employee were false, and in actual fact no investment actions were taken in their accounts, which in fact had a debit balance. Therefore, the plaintiffs claim, they have sustained heavy damages, and the amount claimed by them is composed of the last reported balance in their Bank accounts of NIS 91 million, damage sustained by them due to cancellation of the house purchase contract and claimed damages for distress. In July 2006, the Bank filed a statement of defense arguing, inter alia, that the plaintiffs were unable to provide details or proof of the investment instructions they had given, and in fact not a single investment transaction was made in the plaintiffs' accounts in the capital market during the alleged period, and therefore the alleged balances did not accrue in their accounts. The Bank also argued that returns claimed by the plaintiffs – amounting to thousands of percent, at a growth rate of over NIS 30 million per year – are unreasonable, let alone for investors who have no relevant expertise and with the plaintiffs' initial equity at the Bank amounting to only NIS 150 thousand.

Note 19 - Contingent Liabilities and Special Commitments (continued)

The Bank further argues that reports provided to the plaintiffs by the Bank employee with regard to enormous amounts accumulated in their accounts, in as much as such reports were provided, are also unreasonable and were provided only at the Bank employee's discretion, using false pretenses and acts of fraud and deception, without the Bank's consent or knowledge, and with the Bank being incapable of preventing it by reasonable means available to it.

I. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 57 million were lodged in Haifa District Court against the Bank for charges to borrowers whose loans (linked to the CPI) are in arrears and bear delinquent interest, the rate of which allegedly exceeds the rate stipulated in the Interest Law, 1957 and the Interest Order enacted accordingly. The plaintiffs allege that the arrears clause in the loan agreement, which stipulates that at the time of arrears, the Bank will provide the borrowers with unlinked loans, is apparently illegal, since it contradicts the Interest Order. The plaintiffs also claim that their being charged commissions for not honoring automatic debits, in addition to the delinquent interest, is allegedly illegal, since a commission for not honoring an automatic debit is essentially arrears interest in all respects.

   The Bank filed a request to dismiss out of hand the plaintiffs' motion for class action status, arguing that its actions were and are lawful.

J. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 233 million were lodged in Tel Aviv District Court against the State of Israel – Execution Department, the entire banking system and insurance companies and provident funds.

   The plaintiffs allege that since they were awarded judgments, they opened files against various debtors in the Execution Office, within the framework of which, through the Execution Office, they attached various assets held by third parties (banks, insurance companies and provident funds). However, it claims, that they provided them with partial, misleading and incomplete information, as they were apparently unprepared to provide answers through electronic media, even though they collected from the awardees (the plaintiffs) payment for each answer, which they allege is unlawful.

   The defendants, including the Bank, have filed a motion to dismiss out of hand the motion for class action status. The Court rejected the Bank motion to reject the claim out of hand, but accepted the motion by the insurance companies and rejected out of hand the motion against them. The Bank has filed a motion for the right to appeal to the Supreme Court.

Note 19 - Contingent Liabilities and Special Commitments (continued)

K. 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.

L. In December 2007, a claim was filed against the Bank with the Tel Aviv District Court, along with a motion for class action status, amounting to NIS 114 million. The plaintiffs cite two causes. According to the first cause, estimated at NIS 54 million, the Bank charged property insurance premiums to borrowers in addition to property insurance purchased independently by the plaintiffs, allegedly under coercion and unlawfully. According to the second cause, estimated at NIS 60 million, the Bank coerced its customers to pay insurance premiums based on the full property value and not on the loan balance, i.e. at an amount which was higher than the debt amount.

M. In January 2008, a claim against the Bank was filed with the Central District Court at Petah-Tikva, along with a motion for class action status, amounting to NIS 237 million.

The plaintiff claims that the Bank lowers interest rates paid on renewable short-term deposits based on a non-binding outlook for reduction of the Bank of Israel interest rate. By contrast, when a similar outlook existed for raising the Bank of Israel interest rate, interest rates on deposits were only raised by the Bank after the date on which the Bank of Israel actually raised its interest rate.

The plaintiff further claims that the Bank acted arbitrarily and misled its customers in the pre-contract stage – by not disclosing to customers that it used different criteria for raising the Bank of Israel interest rate compared to those for lowering the Bank of Israel interest rate, as well as during the contract stage - by not informing its customers that it had lowered interest rates for such deposits based on the outlook for a reduction in Bank of Israel interest rates rather than on actual reduction thereof.

The plaintiff claims that the Bank was also in breach of its duty to disclose, imposed by the Banking Act (Customer Service). The plaintiff further claims that should it be determined that under terms of the contract between the Bank and the customer, the Bank may lower interest rates at will, according to the plaintiff, this is a discriminatory condition in a uniform contract.

Note 19 - Contingent Liabilities and Special Commitments (continued)

In May 2008, the Bank filed its response to the motion, in which it rejected the claims made by the customer, and stated that the claim whereby the Bank had to modify interest rates on fixed-rate deposits exclusively in accordance with Bank of Israel interest rates was fallacious, counter to agreements between the customer and the Bank and contrary to reason. The Bank further claimed that the plaintiff's claim with regard to expectations was also unfounded, since interest on deposits was based on a range of economic and macro-economic considerations, commercial considerations by the Bank and considerations with regard to actual customers.

N. In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as set forth in the claim). The plaintiffs claim that banks are in breach of restrictive trade practices statutes, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully. In November 2009, the Court handed down its decision, whereby legal proceedings would currently be put on hold for at least two years.

O. In August 2008, a claim was filed at the Jerusalem District Court against the Bank and against Mizrahi Provident Fund Management Company Ltd., along with an application for class action status – in the amount of NIS 374 million. The claim was also filed against the Supervisor of Capital Market and Insurance as a formal defendant. The plaintiff, who has held accounts in multiple provident funds managed in his name at the Bank, claims that the Bank unlawfully appropriated proceeds he had received upon transfer of control of provident fund assets, management and trusteeship there for to management and control by management companies, in lieu of transferring them to provident fund account holders, pro rata to their share of fund assets since, according to his claim, these proceeds are the fruit generated by the provident fund assets and arise from rights associated with these assets, therefore, according to the claim, this profit belongs to provident fund account holders rather than to the Bank.

The Supervisor of Capital Market and Insurance was requested to join the claim as plaintiff, along with the provident fund account holders, claiming that the Supervisor should rightly voice his position on the claim in both material and public aspects.

The Bank has filed its response to the motion claiming, *inter alia*, that this claim is fallacious and distorts the statute. The asset sold is the provident fund management business, which was owned by the Bank. The sale was made in accordance with the BACHAR reform and related enacted legislation, which required the banks to sell their provident fund management business, which was owned by the Bank and not by the members, therefore the Bank alone is entitled to the proceeds from sale of the asset that it owned. The entire sale was known to national authorities, first and foremost to the Supervisor of Insurance, which reviewed and approved the agreements, including the obvious fact that proceeds from the sale are due to the seller of the asset, namely the Bank.

Note 19 - Contingent Liabilities and Special Commitments (continued)

P. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 130 million, stating collection of commission for cancellation or failure to honor a standing order, collection of commission for a transaction cancelled by the Bank, collection of commission for provision of information or for cash withdrawal when the account owner has no charge card, collection of securities management fee and failure to charge it as a tax deductible expense, and charging of tax on a foreign currency deposit to a checking account. The Bank has filed a motion to dismiss the claim outright, claiming that a class action suit may not be filed for such multiple, distinct causes. In October 2009, the plaintiff filed a response to the Bank's motion to dismiss the lawsuit, stating their acceptance of the Bank's position and requesting that the claim be dismissed. In December 2009, the Court dismissed the claim.

Q. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 68 million, against the Bank, Bank Leumi Le-Israel Ltd., First International Bank of Israel Ltd. and Bank Igud Ltd. for alleged over collection of tax on interest and dividend revenues by way of tax withholding. The plaintiff claims that the banks named in the claim over charge their customers who own bonds or shares (the source of revenue) by not deducting the commission on said revenue prior to withholding tax. The Bank and the other banks have yet to file their response to the motion.

R. In January 2009, 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 its value, the Bank price list no longer applied to him.

S. On May 17, 2009 the Bank received a statement of claim and application for approval of class action suit submitted to the Tel Aviv District Court against the Bank and against Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendant banks").

The claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009 headed "Re: 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" (see section 13 below). The claim alleges, based on the determination by the Supervisor, that the defendant banks were party to a restrictive trade practice, which affected competition and caused coordination of commissions, such that the plaintiffs paid excessive prices for services rendered to them.

Note 19 - Contingent Liabilities and Special Commitments (continued)

The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only on an estimation and so as to place the issue under the material jurisdiction of the District Court.

In November 2009, the Court handed down its decision, whereby legal proceedings would currently be put on hold for at least two years.

T. In July 2009, a claim was filed with the Haifa District Court in the amount of $80 million or more (as set forth in the claim) against the Bank, against an officer of the Bank, and against Bank Leumi, Bank Otzar HaChayal, Bank Hapoalim, Municipality of Haifa and the Supervisor of Banks, due to non-provision of credit allegedly promised to the plaintiff and/or to companies under his control, which has allegedly caused their collapse. In addition to the claim, the plaintiff has filed with the Court a motion for waiving of Court fees.

The Court rejected the plaintiff's motion for waiving Court fees, a decision which the plaintiff has appealed.

In December 2009, the District Court rejected the plaintiff's appeal, and decreed that if the fee would not be paid by end of January 2010, the lawsuit would be rejected.

In February 2010, the District Court rejected the lawsuit since the plaintiff had failed to pay the Court fee.

U. In November 2009, the Bank received a claim of NIS 804 million filed, by way of originating motion, with the Central District Court in PETACH TIKVA, against the Bank, Bank HA-POALIM, BANK LEUMI, First International Bank of Israel, Discount Bank, Mercantile Discount Bank and Bank IGUD (hereinafter: "the defendant banks"). The background for this claim is a loan obtained by the plaintiffs from the banks in 1999 for purchase of shares (of which the Bank's share was 10%), with the plaintiffs pledging their shares to the banks to secure the loan. Since the plaintiffs were unable to repay their debt, a receiver was appointed for the shares at the request of the defendant banks.

The plaintiffs claim that once a receiver was appointed for the shares, these shares were no longer under their control, and although the decision concerning the sale date of the shares was in the hands of the defendant banks and of the receiver, the defendant banks continued to charge, allegedly unlawfully, "arrears interest" to the plaintiffs throughout the receivership period, with respect to the arrears in loan repayment, which over the years amounted, according to the claim, to the total claim amount. The response of the defendant banks to the claim has yet to be filed.

In January 2010, the Court decision was handed down, whereby the lawsuit would be referred for resolution in the course of a regular claim for monetary remedy, and the relevant court fee would be paid by the plaintiffs. Accordingly, the plaintiffs filed in February 2010 a statement of claim in the amount of NIS 829 million.

Note 19 - Contingent Liabilities and Special Commitments (continued)

V. In August 2008, a motion for class action status for a lawsuit was filed against a subsidiary and against Yahavit Ltd. (In Dissolution), with the Jerusalem District Court. The lawsuit is in the amount of NIS 181 million. The lawsuit alleges that proceeds from sale of provident fund and study fund operations, sold by the subsidiary, should be distributed to fund members as well. The proceedings are at a preliminary stage, but management of the subsidiary, based on the opinion of legal counsel, consider the chances of this lawsuit to prevail to be remote.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 12 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 91 million.

12) 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.

A. Two motions are pending and open in District Court and the Supreme Court to recognize as class actions two legal actions against the Bank and other mortgage banks totaling more than one and one-half billion NIS. The specific amount demanded from each bank was not stated.

In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks overcharged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.

The banks deny all plaintiffs' claims and reject them out of hand. The banks 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.

13) 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. The Bank intends to appeal this decision in late March 2010.

For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 11.T above.

Note 19 - Contingent Liabilities and Special Commitments (continued)

14) On May 13, 2009, a claim letter was received from a shareholder of the Bank pursuant to Section 194 of the Corporate Act, 1999 in which the shareholder demands that the Bank announce within 45 days that it has filed a claim against officers, Board members and controlling shareholders of the Bank since the 1990s, requiring them to pay damages and/or to reimburse the Bank, should a court of law find (or a settlement be agreed to) in one of the class action suits pending against the Bank on this matter, that the Bank should compensate its clients and/or reimburse them for unlawful charging of commissions. This claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009.

    On July 1, 2009 the Bank rejected this claim. The Bank's position, after consulting with external legal counsel, is that even after the Anti-Trust Supervisor's determination has been made public, the Bank has no cause for filing a claim against its officers, Board members and controlling shareholders. At this point in time, the alleged damage has yet to be realized, and may not be realized at all, and the extent of such damage is certainly unknown at present, even should it be awarded. The class action suits are at a very preliminary stage - that of filing the motion for recognition - and it is unclear if they would be recognized as class action suits, and even should they be thus recognized, if the Bank would be found liable. Furthermore, filing a claim is not in line with the Bank's interest and is directly opposed to the Bank's position whereby the published determination is erroneous, and the Bank's actions do not constitute a restrictive practice, and even had they constituted a restrictive practice, no damage has been sustained by class plaintiffs.

15) On November 18, 2008, the bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand, to be distributed by the Bank to its customers (hereinafter, respectively: "the agreement" and "the cards"). The agreement sets forth the parties' rights as well as operating arrangements and service provision by CAL Group for the cards, as well as all other terms and conditions related there to. The agreement supersedes current agreements between the Bank and CAL Group in effect since July 26, 1995.

    In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment, up to 121,978 ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted (hereinafter: "the option"). The number of shares allotted upon exercise of the option may be adjusted for certain changes in CAL's capital, as set forth in the agreement. The number of shares allotted may be larger if, prior to exercise of the option, CAL would allot shares at a price reflecting a price below the market value, in accordance with a formula set forth in the agreement.

    Furthermore, the number of shares may change accordingly, should CAL decide on a reverse split of its ordinary shares into shares of higher par value, or on a split of its ordinary shares into shares of lower par value, or on distribution of bonus shares – all from the date of signing the agreement and through a date prior to the option exercise date.

Note 19 - Contingent Liabilities and Special Commitments (continued)

The option may be exercised one time, no later than 5 years from the date of signing the agreement (or, under certain circumstances, a slightly longer period), at any time after the average monthly credit utilization volume by Bank customers on their cards has reached a minimum volume set forth in the agreement. The number of ordinary shares to be allotted in conjunction with exercise of the option shall be calculated using a formula stated in the agreement, in accordance with transactions made by card holders. In return for exercising the option, the Bank shall pay an exercise price based on a formula set forth in the agreement, based on the current company value. The option may be converted into a cash payment to the Bank should there be any hindrance to exercising the option by way of allotment of CAL shares as stated above, or should CAL elect to do so.

The agreement is effective for a 5-year term from its date of signing. Should the option be exercised or cashed as stated above, the agreement term shall be extended to 10 years from its signing date, and may be further extended. The agreement is subject to all regulatory requirements required by statute, if any.

The signed agreement and the option granted to the Bank in conjunction there with have no material impact on Group financial statements.

16) On November 13, 2007, the Bank signed a memorandum of understanding with Isracard Ltd. and Europay (Eurocard) Israel Ltd. ("Isracard" and "Europay", respectively), whose highlights are stated below. Isracard, Europay and the Bank would enter into accelerated negotiations (aiming to conclude them by April 10, 2008, pursuant to the addendum to the MOU signed on April 3, 2008) to replace their current agreed arrangements with a new agreement (for a 10-year term) for the purpose of issuing Mizrahi-Tefahot branded credit cards and agreeing on arrangements for operation and servicing by Isracard and/or Europay of debit cards to be issued by them and to be distributed by the Bank to its customers ("the new agreement"). It was agreed that in exchange for the new agreement, the Bank would be eligible to receive an allotment, for no further consideration, of 3.6% of Isracard and Europay ordinary shares in exchange for the new agreement and its provisions.

It was further agreed that, should the new agreement not be signed by April 3, 2008, the Bank would be eligible to receive an allotment of 1.8% of Isracard and Europay ordinary shares in exchange for continuing the current agreements in place of a 10-year term from the date of signing the MOU. In this case the Bank may distribute its branded card through any party of its choice.

Note that the maximum total shares to be allotted to the Bank in exchange for the aforementioned agreements, would be 3.6% of Isracard and Europay shares. The shares would be allotted subject to customary first-right-of-refusal to Bank Hapoalim Ltd. upon transfer of the shares by Mizrahi-Tefahot to any third party, and subject to a blocking period, whereby Mizrahi-Tefahot may not transfer the shares to any third party (other than Bank Hapoalim) during a 1-year period (the aforementioned right-of-first-refusal and blocking period shall be in effect for as long as Isracard and/or Europay shares are not listed for trading on the stock exchange).

Note 19 - Contingent Liabilities and Special Commitments (continued)

On April 10, 2008, the Bank announced that negotiations with respect to signing a new agreement between the Bank and Isracard and Europay have not resulted in a binding agreement. As a result of the parties not reaching a new agreement, the existing contractual agreements between the parties would remain in effect for a 10-year term starting on November 13, 2007, and the Bank retained 1.8% of Isracard and Europay ordinary shares allocated to it on December 19, 2007; these were recorded in the Bank's accounts in early 2008 at their fair value, estimated at NIS 37 million. Accordingly, the parties remain committed to the agreed provisions of the MOU signed by them on November 13, 2007.

The MOU is subject to all regulatory requirements required by statute, if any.

17) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

18) Pursuant to an agreement signed in 1993 with representatives of the employees, the Bank granted its employees long-term loans at repayment terms provided for in the agreement, with linkage increments and interest at a fixed rate. It was agreed that if, on the maturity date, it becomes clear that the linkage increments and the interest accrued exceed the yield accumulated in an agreed provident fund, they would be reduced accordingly. The tax effects, if any, related to this reduction will devolve on the Bank. A provision has been made for the difference created, as aforesaid. At the balance sheet date, the balances of these loans total NIS 36 million.

19) The Bank has undertaken toward the trustee of the debentures and subordinated notes issued by Tefahot Issue Company from the United Mizrahi Bank Group Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes. For further details, see Note 11.

20) The Bank has committed to borrowers in certain savings plans who would borrow from the Bank, to the following fixed terms:

	December 31	
	2009	2008
At ordinary terms on the commitment date for issuing the loan	-	-
90% of the interest rate prevailing at the time the loan was issued (1)	1,312	1,246
0.25% less than the interest prevailing at the time the loan was issued (1)	465	458
	1,777	1,704

(1) The commitment may be utilized only if certain conditions stipulated in the savings plans are met. Granting of credit is subject at all times to the Bank's exclusive discretion, in accordance with procedures determined by the Bank, with due consideration to client attributes and subject to review of the actual client application for credit to be granted by the Bank.

Note 19 - Contingent Liabilities and Special Commitments (continued)

21) Beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection fee determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to special loans to eligible borrowers to be issued out of Ministry of Finance funds, starting on July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. This agreement has been extended annually, most recently through June 30, 2010.

In May 2008, a new agreement between the Ministry of Finance and the banks became effective (the agreement is expected to be renewed up to a maximum total term of 5 years), whereby loans to eligible borrowers with low point rating are provided out of Bank funds and at Bank risk. The interest on these loans is determined based on interest for special assistance loans out of Ministry of Finance funds.

Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with generally acceptable conditions for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For loans granted to eligible borrowers with low point rating, the Ministry of Finance pays the banks which grant loans out of Bank funds the difference between the actual interest rate charged and the average interest rate published by the Bank of Israel, plus spread. Concurrent with loan origination as stated above, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

Furthermore, it was determined for all eligible borrowers, that those eligible for assistance at "market interest" terms, would receive, starting on May 1, 2008, the assistance loans at an interest rate to be determined in accordance with the average mortgage interest for the loan term (subject to the aforementioned terms), as known upon the execution date.

In early 2010, the Ministry of Finance contacted the Bank, requesting that the 2008 agreement would be extended to apply to additional segments.

Bank management estimates that impact of the new tender would moderate, in coming years, the decline in revenues from new loans in the eligible borrowers' credit portfolio, due to previous Ministry of Finance tenders.

The share of this credit portfolio for which the Bank is responsible would increase at the same time.

Bank revenues from all loans to eligible borrowers under State responsibility in 2009 amounted to NIS 107 million, compared to NIS 102 million in 2008.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

(NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity

a) Activity on a consolidated basis

	Interest contracts					2009
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [1]						
Forward contracts	1,330	-	-	-	-	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 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

(NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity (continued)
a) Activity on a consolidated basis

						2009
	Interest contracts					Total
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	
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 financial 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						
Positive fair value, gross	-	-	-	-	-	-
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 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

(NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity (continued)

a) Activity on a consolidated basis

						2008
	Interest contracts				Commodities	Total
			Currency	Contracts	and other	
	NIS - CPI	Other	contracts	for shares	contracts	
1. **Stated amounts of financial derivatives**						
A. Hedging derivatives [1]						
Forward contracts	1,030	-	-	-	-	1,030
Swaps	-	1,180	-	-	-	1,180
Total	1,030	1,180	-	-	-	2,210
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,180	-	-	-	1,180
B. ALM derivatives [1] [2]						
Futures contracts	-	-	176	-	-	176
Forward contracts	10,418	6,079	41,582	640	146	58,865
Option contracts traded on stock exchange:						
Options written	-	-	376	35	-	411
Options purchased	-	-	633	78	-	711
Other option contracts:						-
Options written	-	-	16,037	615	-	16,652
Options purchased	-	-	16,383	515	-	16,898
Swaps	17,247	16,570	4,679	-	-	38,496
Total	27,665	22,649	79,866	1,883	146	132,209
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	8,262	9,679	-	-	-	17,941
C. Other derivatives [1]						
Forward contracts	-	-	1,841	-	-	1,841
Option contracts traded on stock exchange:						
Options written	-	-	1,648	5,068	6	6,722
Options purchased	-	-	1,690	5,068	6	6,764
Other option contracts:						
Options written	-	438	2,370	631	12	3,451
Options purchased	-	438	2,340	367	12	3,157
Total	-	876	9,889	11,134	36	21,935

(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 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

(NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity (continued)

a) Activity on a consolidated basis

						2008
	Interest contracts				Commodities and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
D. Credit derivatives and foreign currency spot swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	913	913
Credit derivatives in which the Bank is beneficiary	-	-	-	-	51	51
Foreign currency spot swap contracts	-	-	2,326	-	-	2,326
Total	-	-	2,326	-	964	3,290
Total stated amounts of derivatives	28,695	24,705	92,081	13,017	1,146	159,644
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	41	-	-	-	-	41
Negative fair value, gross	23	117	-	-	-	140
B. ALM derivatives (1) (2)						
Positive fair value, gross	597	212	1,580	219	1	2,609
Negative fair value, gross	601	244	1,257	244	1	2,347
C. Other derivatives (1)						
Positive fair value, gross	-	-	618	111	8	737
Negative fair value, gross	-	-	618	112	8	738
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	80	80
Total positive fair value, gross	638	212	2,198	330	9	3,387
Total negative fair value, gross	624	361	1,875	356	89	3,305

(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 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

(NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity (continued)

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

	2009					
	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

	2008					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive fair value, gross, of financial derivatives [(1)]	137	2,441	25	-	784	3,387
Off-balance sheet credit risk on financial derivatives [(2)]	71	9,469	69	-	2,912	12,521
Total credit risk on financial derivatives	208	11,910	94	-	3,696	15,908

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 1 million (in 2008 – NIS 2 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 1,491 million, included under “other assets” (in 2008 - NIS 3,385 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 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31,

(NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity (continued)

c) Maturity dates – stated amounts: year-end balances - Consolidated

	2009				
	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	88,774	44,659	15,001	8,700	157,134

	2008				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	3,068	11,844	9,571	4,212	28,695
Other	8,632	12,231	1,379	2,463	24,705
Currency contracts	58,728	29,348	3,301	704	92,081
Contracts for shares	11,215	706	1,096	-	13,017
Commodities and other contracts	182	1	741	222	1,146
Total	81,825	54,130	16,088	7,601	159,644

Note 19 - Contingent Liabilities and Special Commitments (continued))

E. Financial derivatives activity – volume, credit risk and maturity (continued)

3. Description of derivative instruments and the risks inherent in such activity

1. General

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and on its own account, as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

2. Types and description of activity in derivative instruments

The activities in derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:

  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments ("underlying asset"), to be executed on a future date and at a price specified in advance.

- Swaps:

  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.

- Options:

  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.

- Credit derivatives:

  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.

- Spot transactions:

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.

Note 19 - Contingent Liabilities and Special Commitments (continued)

3. Risks inherent in derivative instrument activities:

The Bank's activities in derivative instruments expose it to credit risks and to market risks that include interest risks, basis risks and liquidity risks, as detailed below:

a) Credit exposure in derivative instruments, which is defined by the Supervisor of Banks as "present credit exposure", quantifies the maximum possible loss that the Bank will sustain if the other party does not fulfill the terms of the transaction, after deducting enforceable set-off agreements, and without taking collateral into account. In the credit derivatives written by the Bank, the credit exposure is expressed in the amount that the Bank will be obliged to pay if the event stipulated in the contract occurs. To manage the credit extent of the exposure inherent in derivative instruments over the life of the transaction, the exposure is estimated at the price of the commitment in the reverse transaction for the remaining life of the transaction. Collateral requirements are determined according to the type of customer, and sometimes, at a fixed percentage of the credit facility determined for a given customer. In other cases, exposure is determined according to scenarios based on the Black and Scholes Model. The collateral required by the Bank usually includes liquid collateral such as securities, deposits, etc., and is valued as collateral in accordance with the various collateral coefficients used by the Bank.

b) The market risks in derivative instruments with which the Bank contends result from their various sensitivities to unexpected fluctuations in interest rates, the inflation rate, exchange rates and other financial indices. The Bank manages the market risks involved in financial derivatives by including these instruments within the management of exposure to market risks of the entire range of the Bank's operations.

c) Liquidity risk from transactions in derivative financial instruments derives from the inability to quickly close the exposure by cash payment or by creating reverse exposure. The derivative instruments and their effect on liquidity needs are an integral part of the management of the Bank's liquidity risk in accordance with Proper Banking Conduct Regulation 342.

d) The operational risk in derivative instruments is due to the risk of erroneous execution of transactions, beginning from the date they are entered into until they are settled, due to human error or to mechanical error.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments

1. Fair value of financial instruments

   For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

   The estimate of fair value using future cash flows and determination of a discount rate are subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2. The principal methods and assumptions for estimating fair value of financial instruments:

   a) Fair value was calculated by the managements in the Bank Group, taking into account the possibility of early repayment.

   b) Deposits from the public, deposits with banks and loans to the Government, as well as debentures and subordinated notes – the discounting of future cash flows using interest rates at which, in the estimation of the managements in the Bank Group, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component.

   c) Securities, including asset-backed securities, see Note 1.H.

   d) Investments in corporations for which a market value cannot be quoted are not included in this note at their fair value but rather at cost, (net of impairment provisions) which, in the estimation of management, is not lower than the fair value of the investment.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments (continued)

e) Loans to the public – The fair value of loans to the public is estimated by the present value of cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, and as to mortgages, according to homogeneous categories, for which the flows of future receipts (principal and interest) were calculated.

These receipts were discounted at the interest rate at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans to a customer at a similar risk level, and as to mortgages, according to homogeneous categories.

In certain loans granted by the Bank and a subsidiary at variable interest that changes at a frequency of up to three months, namely housing loans, the carrying value approximates fair value.

f) The fair value of problem debt is calculated using a discount rate that reflects the level of credit risk inherent in them. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debt were calculated after deducting the specific provisions for doubtful debts.

A decrease of 1% in the discount rate affects the fair value of the problematic debts of the Group by NIS 68 million. Non-accrual loans in all the linkage segments are discounted in the Bank, at the unlinked shekel interest rate.

The general and supplementary provision for doubtful debts was not deducted from the loan balances for the purpose of calculating cash flows and estimating fair value.

g) Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

h) Financial derivatives – Financial derivatives that have an active market were valued at market value. Financial derivatives not traded on an active market have been valued using internal models and have been validated by a professional appointed by the Bank to this end.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts (NIS in millions)

3. Information on the fair value of financial instruments is presented below:

								Consolidated
				December 31, 2009				December 31, 2008
	Book balance				Book balance			
	(1)	(2)	Total	Fair value	(1)	(2)	Total	Fair value
Financial assets								
Cash and deposits with banks	7,844	3,167	11,011	11,039	5,333	5,705	11,038	11,038
Securities	6,615	942	7,557	7,557	8,311	948	9,259	9,259
Securities loaned or sold in repurchase agreements	307	-	307	307	12	-	12	12
Credit to the public	11,552	83,697	95,249	96,390	(3) 28,976	59,947	(3) 88,923	(3) 89,216
Loans to the Government	4	297	301	303	-	2	2	2
Investments in investees	28	-	28	28	26	-	26	26
Other financial assets	2,260	-	2,260	2,260	3,999	-	3,999	3,999
Total financial assets	28,610	88,103	116,713	117,884	46,657	66,602	113,259	113,552
Financial liabilities								
Deposits from the public	22,089	72,932	95,021	96,719	21,763	70,016	91,779	92,640
Deposits from banks	184	1,715	1,899	1,958	237	1,630	1,867	1,910
Deposits from the Government	4	205	209	234	5	237	242	276
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	972	-	972	972
Debentures and subordinated notes	-	8,166	8,166	8,856	-	6,837	6,837	6,677
Other financial liabilities	5,320	1	5,321	5,321	(3) 6,156	-	(3) 6,156	(3) 6,156
Total financial liabilities	27,597	83,019	110,616	113,088	29,133	78,720	107,853	108,631

(1) Financial instruments in which the balance sheet balance constitutes an estimate of fair value. For further details, see (2) above.
(2) Other financial instruments.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts (NIS in millions)

3. Information on the fair value of financial instruments is presented below:

								The Bank
				December 31, 2009				December 31, 2008
	Book balance				Book balance			
	(1)	(2)	Total	Fair value	(1)	(2)	Total	Fair value
Financial assets								
Cash and deposits with banks	7,830	734	8,564	8,583	5,842	4,633	10,475	10,494
Securities	4,492	888	5,380	5,380	4,810	932	5,742	5,742
Securities loaned or sold in repurchase agreements	307	-	307	307	12	-	12	12
Credit to the public	10,620	79,152	89,772	90,909	22,603	56,743	79,346	79,592
Loans to the Government	4	297	301	303	-	2	2	2
Investments in investees	40	357	397	397	38	129	167	167
Other financial assets	2,168	-	2,168	2,168	3,922	-	3,922	3,922
Total financial assets	25,461	81,428	106,889	108,047	37,227	62,439	99,666	99,931
Financial liabilities								
Deposits from the public	21,765	64,722	86,487	88,247	17,518	64,624	82,142	82,906
Deposits from banks	255	6,141	6,396	6,515	814	1,978	2,792	2,833
Deposits from the Government	2	205	207	231	1	233	234	268
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	972	-	972	972
Debentures and subordinated notes	-	4,825	4,825	5,308	-	4,430	4,430	4,271
Other financial liabilities	4,303	-	4,303	4,303	5,179	-	5,179	5,179
Total financial liabilities	26,325	75,893	102,218	104,604	24,484	71,265	95,749	96,429

(1) Financial instruments in which the balance sheet balance constitutes an estimate of fair value. For further details, see (2) above.
(2) Other financial instruments.

Note 21 - Interested and Related Parties - Consolidated

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2009							
	Interested parties						Related parties held by the Bank	
	Controlling shareholders		Directors and President		Others [4]		Affiliates	
	Balance as of balance sheet date	Highest balance during the year [1]	Balance as of balance sheet date	Highest balance during the year [1]	Balance as of balance sheet date	Highest balance during the year [1]	Balance as of balance sheet date	Highest balance during the year [1]
Assets								
Credit to the public	-	-	5	5	41	85	25	30
Investments in affiliate (including subordinated notes)	-	-	-	-	-	-	12	12
Liabilities								
Deposits from the public	32	32	22	22	9	23	1	6
Shares (included in shareholders' equity) [2]	2,996	2,996	42	65	-	-	-	-
Off-balance-sheet financial instruments [3]	-	1	3	3	40	107	-	1

(1) Based on balances at the end of each month.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(3) The share of interested and related parties in the Bank's capital.
(4) A corporation in which the interested party holds 25% or more of its issued share capital or voting rights, or may appoint 25% or more of members of its Board of Directors.

Note 21 - Interested and Related Parties - Consolidated (continued)

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2008							
	Interested parties						Related parties held by the Bank	
	Controlling shareholders		Directors and President		Others [4]		Affiliates	
	Balance as of balance sheet date	Highest balance during the year [1]	Balance as of balance sheet date	Highest balance during the year [1]	Balance as of balance sheet date	Highest balance during the year [1]	Balance as of balance sheet date	Highest balance during the year [1]
Assets								
Credit to the public	-	6	5	6	75	100	31	50
Investments in affiliate (including subordinated notes)	-	-	-	-		-	11	11
Liabilities								
Deposits from the public	22	22	7	8	5	59	2	3
Shares (included in shareholders' equity) [2]	2,719	2,719	65	65	-	-	-	-
Off-balance-sheet financial instruments [3]	1	1	3	3	107	177	1	1

(1) Based on balances at the end of each month.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(3) The share of interested and related parties in the Bank's capital.
(4) A corporation in which the interested party holds 25% or more of its issued share capital or voting rights, or may appoint 25% or more of members of its Board of Directors.

Note 21 - Interested and Related Parties - Consolidated (continued)

Reported amounts (NIS in millions)

B. In statement of profit and loss

The results of financing operations (before provision for doubtful debts) and operating expenses from the transactions of the Bank and its subsidiaries with interested and related parties:

	For the year ended December 31								
			2009			2008			2007
	Interested parties		Related parties held by the Bank	Interested parties		Related parties held by the Bank	Interested parties		Related parties held by the Bank
	Controlling share-holders	Others	Affiliates	Controlling share-holders	Others	Affiliates	Controlling share-holders	Others	Affiliates
With respect to credit from the public	-	11	3	-	(13)	4	-	9	4
With respect to liabilities from deposits from the public	-	-	-	1	2	-	-	4	-
Total results from financing operations (before provision for doubtful debts)	-	11	3	(1)	(15)	4	-	5	4
Operating and other expenses	-	29	-	-	18	-	-	16	-

C. Benefits to interested parties (by the Bank and by investees):

	For the year ended December 31					
		2009		2008		2007
	Total benefit recipients	Total benefits	Total benefit recipients	Total benefits	Total benefit recipients	Total benefits
Salary of Board members and President						
Chairman of the Board of Directors and President employed by the Bank (1)	2	21	2	11	2	13
Directors who are employed by the Bank Group	-	-	-	-	-	-
Directors who are not employed by the Bank Group	13	5	12	5	12	2

(1) In accordance with his employment agreement, the President is entitled to options to purchase shares of the Bank, in accordance with plans approved by the Audit Committee and the Board of Directors of the Bank on November 30, 2008. See Note 16.A1 for details.

To the best of the Bank's knowledge, transactions with related parties were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities. The income or expenses connected with these transactions are included in the appropriate items in the statement of profit and loss.

Note 22 - Profit from Financing Operations before Provision for doubtful debts

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
A. From assets [(1)]						
From loans to the public	4,544	4,953	4,087	4,379	4,478	3,804
From loans to the Government	(4)	1	(1)	(4)	1	(1)
From deposits with the Bank of Israel and from cash	(80)	125	84	(82)	124	84
From deposits with banks	(66)	(487)	(239)	(127)	(479)	(163)
From securities loaned or sold in repurchase agreements	3	1	5	3	1	5
From debentures	225	67	174	112	(12)	173
	4,622	4,660	4,110	4,281	4,113	3,902
B. On liabilities [(1)]						
On deposits from the public	(2,316)	(2,085)	(2,048)	(2,324)	(1,992)	(2,074)
On deposits from governments	(15)	(17)	(22)	(15)	(18)	(22)
On deposits from the Bank of Israel	-	(8)	(40)	-	(8)	(40)
On deposits from banks	374	467	(160)	258	501	(141)
On securities loaned or sold in conjunction with repurchase agreements	-	(7)	-	-	(7)	-
On debentures and subordinated notes	(692)	(604)	(460)	(458)	(412)	(319)
	(2,649)	(2,254)	(2,730)	(2,539)	(1,936)	(2,596)
C. On financial derivatives and hedging activities						
Net revenues (expenses) from ALM derivatives [(2)]	59	(426)	(44)	79	(426)	(44)
Income, net, from other derivatives	6	67	403	6	54	403
	65	(359)	359	85	(372)	359
D. Other						
Commissions from financing transactions	95	92	85	92	85	81
Financing income from collection of interest on arrears						
From loans to individuals	35	47	45	35	47	45
Interest income on problem loans	120	108	126	120	106	124
Other financing income	137	21	57	101	30	54
Other financing expenses	(40)	(26)	(26)	(39)	(30)	(25)
	347	242	287	309	238	279
Total profit from financing operations before provision for doubtful debts	2,385	2,289	2,026	2,136	2,043	1,944
Includes: exchange rate differences, net	2	12	(20)	(5)	5	(8)

(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.

Note 22 - Profit from Financing Operations before Provision for doubtful debts (continued)

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
E. Details of results of investments in debentures						
Financing income on accrual basis from debentures:						
Available for sale	220	64	176	107	(14)	175
Held for trading	5	3	(2)	5	2	(2)
Total included in profit from financing operations from assets	225	67	174	112	(12)	173
Other financing revenues:						
Gain on sale of debentures available for sale	67	15	26	31	15	26
Provision for impairment of available-for-sale debentures	(47)	(215)	(114)	(47)	(215)	(114)
Realized and unrealized gains (losses) from adjustment to fair value of debentures held for trade, net	5	3	(2)	5	3	(2)
Total included in other financing income	25	(197)	(90)	(11)	(197)	(90)
Total from investments in debentures	250	(130)	84	101	(209)	83
F. Details of net effect of hedging financial derivatives on profit from financing operations						
Financing revenues (expenses) from assets (section A)	(26)	(136)	33	(26)	(136)	33

Note 23 - Operating Commissions

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Account management fees (1)	268	236	212	248	229	212
Translation differences	129	115	109	121	111	109
Income from credit cards	130	108	84	95	89	84
Handling of credit and preparation of contracts	124	121	116	117	112	110
Computerized services, information and confirmations	17	16	13	17	16	13
Foreign trade and special services in foreign currency	37	40	44	35	38	42
Income from securities transactions	268	218	205	221	193	189
Collection commissions on credit from Ministry of Finance funds	111	110	112	107	102	105
Mutual fund distribution commissions	28	(2) 23	(2) 26	23	(2) 21	(2) 26
Home insurance distribution commissions	40	38	42	-	-	-
Life insurance distribution commissions	78	79	72	43	48	54
Provident fund management fees	-	-	(2) 28	-	-	(2) 21
Provident fund operating fees	49	(2) 34	(2) 20	26	(2) 23	(2) 20
Other commissions	28	23	25	21	15	16
Total operating commissions	1,307	1,161	1,108	1,074	997	1,001

(1) In Israeli and foreign currency

(2) Reclassified.

Note 24 - Gains from Investments in Shares, net

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Gains on the sale of shares available for sale	100	17	9	100	18	9
Provision for impairment of shares available for sale	(13)	(3)	(1)	(13)	(3)	(1)
Dividends from shares available for sale	27	32	57	27	32	57
Total gains from investments in shares, net	114	46	65	114	47	65

Note 25 - Other Income

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	(1) 2008	(1) 2007	2009	(1) 2008	(1) 2007
Excess revenues from severance pay fund over expenses to supplement severance pay provisions	8	-	-	-	-	-
Management fees from subsidiaries	-	-	-	1	1	1
Revenues from security services	5	3	3	5	3	3
Trustee fees	5	4	5	-	-	-
Management fees	8	4	5	-	-	-
Other	17	11	4	5	6	4
Total other income	43	22	17	11	10	8

(1) Reclassified.

Note 26 - Salaries and Related Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	[3] 2008	[3] 2007	2009	[3] 2008	[3] 2007
Salaries (including bonuses)	945	883	835	815	785	787
Expense arising from share-based payment transactions [1]	59	15	18	58	14	18
Severance pay, provident and pension, continuing education fund and vacation	185	146	122	165	129	115
National Insurance and VAT on salaries	250	207	179	224	190	173
Other related expenses	19	14	13	12	10	13
Supplement to provisions for related expenses, due to changes in salaries during the current year	2	8	2	2	2	2
Voluntary retirement expenses [2]	170	-	-	170	-	-
Total salaries and related expenses	1,630	1,273	1,169	1,446	1,130	1,108
Includes: salaries and related expenses overseas	48	49	54	34	34	38

(1) See Note 16.A.
(2) See Note 16.J.
(3) Reclassified.

Note 27 - Other Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Marketing and advertising	62	57	46	50	45	41
Communications	47	42	37	36	35	36
Computer	82	50	30	15	21	25
Office expenses	25	23	20	19	18	18
Insurance	20	15	16	19	13	15
Legal, audit and professional advisory services	79	78	67	68	69	61
Directors' remuneration and fees for participation in meetings	6	6	3	5	5	2
Training and continuing education	8	7	7	6	6	7
Commissions	26	28	37	26	28	37
Cars and travel	37	36	32	37	35	31
Amortization of goodwill	14	(1) 9	(1) 5	14	(1) 9	(1) 5
Sundry	47	(1) 56	(1) 48	46	(1) 55	(1) 47
Total other expenses	453	407	348	341	339	325

(1) Reclassified.

Note 28 - Provision for Taxes on Operating Profit

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bankd		
	2009	2008	2007	2009	2008	2007
A. Composition						
Current taxes -						
For the current year	410	359	339	373	303	307
For prior years	(18)	(10)	-	(15)	(8)	(1)
Total current taxes	392	349	339	358	295	306
Changes in deferred taxes -						
For the current year	(106)	7	29	(111)	9	29
Total provision for taxes on income	286	356	368	247	304	335
Includes provision for taxes overseas (includes deferred taxes)	7	12	6	3	7	-

Note 28 - Provision for Taxes on Operating Profit (continued)

For the year ended December 31

Reported amounts (NIS in millions)

B. Reconciliation between the theoretical tax amount that would be applicable had the operating profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on operating profit as included in the statement of profit and loss:

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Statutory tax rate applicable to a bank in Israel	36.21%	36.80%	38.53%	36.21%	36.80%	38.53%
Tax amount based on statutory tax rate	302	357	405	252	295	365
Tax (tax saving) from:						
Deduction for inflation	-	-	(39)	-	-	(33)
Subsidiaries' income:						
In Israel	(6)	(5)	(5)	-	-	-
Overseas	(3)	(5)	(1)	-	-	-
Special and supplementary provision for doubtful debts	6	5	(7)	7	5	(7)
Exempt income	(10)	(1)	(2)	(10)	(1)	(2)
Adjustment differences on depreciation, amortization and capital gains	(2)	(3)	(4)	(2)	(3)	(4)
Other non-deductible expenses	8	14	5	7	13	4
Temporary differences and losses for which deferred taxes have not been recorded	2	10	7	2	10	7
Profit tax on payroll tax, net [(1)]	-	7	12	-	6	12
Taxes for prior years	(18)	(10)	-	(15)	(8)	(1)
Change in deferred tax balances due to change in tax rates	11	-	3	10	-	3
Adjustment differences on monetary assets and other differences, net	(4)	(13)	(6)	(4)	(13)	(9)
Total provision for taxes on income	286	356	368	247	304	335

(1) See section D. below.

Note 28 - Provision for Taxes on Operating Profit (continued)

For the year ended December 31

Reported amounts (NIS in millions)

C. On July 25, 2005, the Knesset enacted Amendment No 147 to the Income Tax Ordinance, 2005 (“the Amendment”). Pursuant to the Amendment, the pace of gradual reduction of the corporate tax rate will be accelerated, as provided below: in 2006 - 31% (instead of 32%), in 2007 – 29%; in 2008 – 27%, in 2009 – 26%, in 2010 and thereafter – 25%.

On June 27, 2006, the Minister of Finance signed a Value Added Tax Order (Tax Rate on Not-for-Profit Corporations and Financial Institutions) (Amendment), 2006, which stipulates that the rate of profit tax will be reduced from 17% to 15.5%, in the manner provided in the Order.

On July 14, 2009, the Knesset enacted the Economic Efficiency Act (Legislation Changes for Implementation of the Economic Plan for 2009–2010), 2009 which stipulates, *inter alia*, an additional gradual decrease in the corporate tax rate, down to 18% in 2016 and thereafter. Furthermore, on July 1, 2009 the VAT Law (VAT Rate for Non-Profits and Financial Institutions) (Interim Provision), 2009 was published, and an amendment to that Law was published on December 31, 2009. In accordance with the amended Law, the profit tax rate for 2009 and 2010 shall be an average of 16%.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Statutory tax rate
2009	36.21%
2010	35.34%
2011	34.20%
2012	33.33%
2013	32.47%
2014	31.60%
2015	30.74%
2016 and later	29.00%

The impact of the change in payroll tax starting on July 1, 2009 resulted in a NIS 7 million increase in payroll expenses in 2009. Furthermore, the impact of the change in tax rates on deferred tax balances resulted in a NIS 10 million tax expense in 2009.

D. On February 26, 2008 the Knesset passed the IncomeTax Act (Adjustments for Inflation) (Amendment no. 20) (Restriction of Effective Period), 2008 ("the amendment"), whereby the Inflationary Adjustment Law would be rescinded in the 2007 tax year, and starting in the 2008 tax year, provisions of the Law shall no longer apply, other than interim provisions intended to avoid distortions in tax calculations.

Note 28 - Provision for Taxes on Operating Profit (continued)

For the year ended December 31

Reported amounts (NIS in millions)

Pursuant to the amendment, from the 2008 tax year onwards, revenues are no longer adjusted, for tax purposes, to a real measuring basis. The CPI-linkage of depreciation amounts on fixed assets and of carry-forward tax loss amounts has also been discontinued. These amounts had been linked to the CPI through 2007, and thereafter are no longer linked to the CPI.

The amendment also amends the definitions of “profit” and “salary” in the VAT Act. Pursuant to the amendments, in calculating profit for tax purposes, the salary tax paid by the financial institution is deducted. Furthermore, payment of the employer’s share of insurance fees paid for his employer under the National Insurance Act (Combined Version), 1995 (hereinafter: “the National Insurance Act”) is taxable for payroll tax purposes.

The impact of discontinuation of the Inflationary Adjustments Law, as of December 31, 2009, is estimated at a decrease in Bank net profit by NIS 19 million for each 1% in the annual rise of the CPI.

E. The Bank has final tax assessments or those deemed final for the tax years through 2007, inclusive. The former Bank Adanim has final tax assessments or those deemed final for the tax years through 2006. Bank Yahav has finalized tax assessments through 2002.

F. Following the merger of the Investment Corporation with the Bank, a tax asset ("deferred tax") of NIS 25 million was included in the year 2004, for carry forward losses in the Investment Corporation that may be set off against the Bank's profits for 10 years. Furthermore, there are additional tax losses in the amount of NIS 51 million that accrued in the Investment Corporation, which will also be allowed to be set off for tax purposes for a period of 10 years, if certain conditions that were prescribed in the approval of the Income Tax Commission are fulfilled. Deferred taxes were not recorded for these amounts.

On March 6, 2006, confirmation was received from the Income Tax Authorities on fulfillment of the conditions of the merger with the Investment Corporation of Mizrahi Bank Ltd.

G. Following the merger of "Tefahot" Israel Mortgage Bank Ltd. on January 1, 2005, certification was received from the Income Tax Authority on February 4, 2007, on fulfillment of the conditions of the merger.

H. In conjunction with the merger of Adanim Mortgage Bank Ltd. on February 23, 2009, certification was received from the Income Tax Authority on February 1, 2009, on fulfillment of the conditions of the merger. It should be noted that, as aforesaid in Par. E., the Bank has no final tax assessments for the year 2009.

Note 28 - Provision for Taxes on Operating Profit (continued)

For the year ended December 31

Reported amounts (NIS in millions)

I. Adjustment amount for non-monetary assets, whose depreciation would not be tax deductible in the future, and for which no provision for deferred taxes is to be created:

	Consolidated		The Bank	
	2009	2008	2009	2008
Balance as at beginning of year	53	54	53	54
Amount not deductible in reported year	(1)	(1)	(1)	(1)
Balance as at end of year	52	53	52	53

J. Deferred tax assets and provision for deferred taxes

	Consolidated				The Bank			
	December 31				December 31			
	Balances		Average tax rate in %		Balances		Average tax rate in %	
	2009	2008	2009	2008	2009	2008	2009	2008
Deferred taxes for:								
Specific provision for doubtful debts (1)	10	10	35.3	35.9	10	-	35.3	-
Provision for vacation pay, long-service bonuses and employee rights (1)	72	30	35.3	34.6	67	23	35.3	34.6
Excess provision for employee rights on retirement, net (1)	179	153	32.6	35.1	179	148	32.6	35.1
Other securities (1)(3)	32	36	35.3	35.9	32	36	35.3	35.9
Adjustment of depreciable non-monetary assets (2)	(15)	(11)	18.0	25.0	(15)	(11)	18.0	25.0
Other - from monetary assets (1)(2)(4)	57	(14)	35.3	35.9	57	(14)	35.3	35.9
Other - from non-monetary assets, net (1)	19	20	35.3	35.9	16	16	35.3	35.9
Total deferred taxes	354	224	34.7	35.7	346	198	34.7	35.8
Deferred taxes include:								
(1) Deferred tax assets included in "other assets"	391	263	34.0	35.3	383	237	34.0	35.3
(2) Deferred taxes payable included in "other liabilities"	(37)	(39)	27.9	25.0	(37)	(39)	27.9	25.0
Deferred taxes, net	354	224	34.7	35.7	346	198	34.7	35.8

(3) Changes in this item, amounting to NIS 34 million, are due to adjustment to fair value of securities available for sale (previous year - NIS 66 million) and have been recognized under a separate item in shareholders' equity.

(4) Changes in this item, amounting to NIS 7 million, are due to adjustment to net gain from cash flow hedges (previous year - NIS 28 million) and have been recognized under a separate item in shareholders' equity.

Note 29 - After-Tax Profit (Loss) from Extraordinary Items

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2009	2008	2007	2009	2008	2007
Profit from sale of provident fund operations (1)	-	-	385	-	-	333
Gain from sale of shares of investees	-	-	3	-	-	3
Gain from sale of buildings and equipment	-	3	21	-	-	11
Capital loss from sale of buildings and equipment	-	(1)	-	-	(1)	-
(Provision) cancellation of provision for anticipated loss on buildings for sale and leased properties not in use	(2)	1	(14)	(2)	1	(14)
Pre-tax profit (loss)	(2)	3	395	(2)	-	333
Provision for taxes on profit from extraordinary items:						
Current taxes	-	1	32	-	-	8
Deferred taxes	-	-	123	-	-	123
Total provision for taxes	-	1	155	-	-	131
After-tax profit	(2)	2	240	(2)	-	202
Share in net, after-tax profit from extraordinary items of subsidiaries	-	-		-	1	25
Minority interest in net, after-tax profit from extraordinary items of subsidiaries	-	(1)	(13)	-	-	-
After-tax profit (loss) from extraordinary items	(2)	1	227	(2)	1	227

(1) For sale of provident fund operations, see Note 6.E.2).

Note 30 - Earnings per Ordinary Share

For the year ended December 31

	Consolidated		
	Reported amounts (NIS in millions)		
	2009	2008	2007
Net profit used to calculate earnings per share:			
Basic earnings			
Net operating profit	532	601	681
After-tax profit from extraordinary items	(2)	1	227
Total net profit attributable to holders of ordinary shares of the banking corporation	530	602	908
Diluted earnings			
Net operating profit	532	601	681
After-tax profit from extraordinary items	(2)	1	227
Total net profit attributable to holders of ordinary shares of the banking corporation	530	602	908
Earnings per share:			
Basic earnings			
Net operating profit	2.39	2.7	3.08
After-tax profit from extraordinary items	(0.01)	0.01	1.03
Total net profit attributable to holders of ordinary shares of the banking corporation	2.38	2.71	4.11
Diluted earnings			
Net operating profit	2.38	2.68	3.03
After-tax profit from extraordinary items	(0.01)	0.01	1.01
Total net profit attributable to holders of ordinary shares of the banking corporation	2.37	2.69	4.04

	2009	2008	2007
Weighted average number of shares [(1)]			
Weighted average number of ordinary shares used to calculate basic earnings	222,860,761	222,440,565	220,692,404
Weighted average number of ordinary shares used to calculate diluted earnings	223,506,949	223,784,023	224,888,741

(1) Excludes 2,500,000 shares bought back by the Bank. For details see Note 13.

Note 31 - Operating Segments and Geographic Regions - Consolidated

Bank Group operating segments

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

The Bank's operating segments are:

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

Small business segment – under responsibility of the Retail Division, which also serves small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and 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, and the Bank offers them access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business clients are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

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

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

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

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

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

The principles used in assigning balances, income and expenses to clients in the system are as follows:

- Credit interest income and deposit interest expenses are directly attributed to the client. For credit, an expense set at cost of capital raised is attributed to clients, against an inter-segment credit to the Financial Management segment. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Each of the segments is credited for capital attributed to its operations, against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment (calculation through 2009 was made in terms of Basel I).
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investments in securities and from strategic positions are attributed to Financial Management.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

- Provision for doubtful debts is directly attributed to clients for whom it is made.
- Commission- and other income is specifically attributed to clients.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.
- Provision for tax on operating profit is attributed to clients, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on average customer risk assets (calculation through 2009 was in Basel I terms).
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

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 customer assignment to various departments and hence to operating segments, and on attribution of results and balances to customers and segments in the profitability measurement system.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued) For the year ended December 31, 2009

Reported amounts (NIS in millions)

B. 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%	10.7%	10.1%	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)	51,110	989	4,892	3,976	27,601	7,550	96,118
Risk assets (Basle II) (end balance)	37,256	848	4,504	4,710	32,235	4,091	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

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

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued) For the year ended December 31, 2009

Reported amounts (NIS in millions)

C. Information on 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

D. Information on geographic regions (1)

	Revenues for the year ended December 31, 2009 (2)	Net profit for the year ended December 31, 2009	Total assets as of December 31, 2009
Israel	3,675	477	111,946
Outside of Israel	174	53	6,493
Total consolidated	3,849	530	118,439

(1) Revenues and assets by geographic region were attributed based on location of Group offices.
(2) Includes operating profit from financing operations before provision for doubtful debts and other operating profit.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued) For the year ended December 31, 2008

Reported amounts (NIS in millions)

B. Information regarding operating segments

	Household	Private banking (1)	Small business	Commercial banking	Business banking	Financial management (1)	Total consolidated
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,613	(154)	69	267	753	(1,259)	2,289
Inter-segment	(1,420)	215	260	(119)	(212)	1,276	-
Profit from financing operations before provision for doubtful debts	1,193	61	329	148	541	17	2,289
Operating and other revenues	670	61	181	48	146	123	1,229
Total revenues	1,863	122	510	196	687	140	3,518
Provision for doubtful debts	(1) 97	1	(1) 79	25	180	13	395
Operating and other expenses							
From outside operating segments	1,259	57	380	54	190	213	2,153
Inter-segment	(106)	1	(41)	55	67	24	-
Other operating expenses - total	1,153	58	339	109	257	237	2,153
Operating profit (loss) before taxes	613	63	92	62	250	(110)	970
Provision for taxes on operating profit	229	23	35	23	88	(42)	356
After-tax operating profit (loss)	384	40	57	39	162	(68)	614
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profit of subsidiaries	(12)	-	-	-	-	-	(12)
Net operating profit (loss)	372	40	57	39	162	(69)	601
Net after-tax profit from extraordinary items	-	-	-	-	-	1	1
Net profit (loss)	372	40	57	39	162	(68)	602
Return on equity	13.7%	70.9%	13.8%	14.3%	8.9%	(14.3%)	10.4%
Average balance of assets	49,534	1,440	5,470	4,831	23,358	17,213	101,846
Average balance of liabilities	(1) 38,032	6,367	6,317	2,103	13,801	29,210	95,830
Average balance of risk assets(2)	41,701	843	6,188	4,077	27,246	8,569	88,624
Average balance of provident and mutual fund assets	-	-	-	-	-	51,087	51,087
Average balance of securities	(1) 21,413	5,481	(1) 9,180	1,599	36,310	22,416	96,399
Credit to the public (end balance)	(1) 55,374	1,350	4,955	4,545	22,699	-	88,923
Deposits from the public (end balance)	(1) 46,170	6,809	6,591	2,510	13,655	16,044	91,779
Average balance of other assets managed	20,349	-	153	36	119	-	20,657

(1) Reclassified.

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

Note 31 - Operating Segments
and Geographic Regions - Consolidated (continued)
For the year ended December 31, 2008

Reported amounts (NIS in millions)

C. Information on profit from financing operations before provision for doubtful debts

	Household [3]	Private banking	Small business	Commercial banking	Business banking [3]	Financial management	Total consolidated
Margin from credit granting operations	649	22	203	101	316	-	1,291
Margin from receiving deposits	429	35	76	17	92	-	649
Other	115	4	50	30	133	17	349
Total	1,193	61	329	148	541	17	2,289

D. Information on geographic regions [1]

	Revenues for the year ended December 31, 2008 [2]	Net profit for the year ended December 31, 2008	Total assets as of December 31, 2008 [3]
Israel	3,516	654	107,925
Outside of Israel	2	(52)	6,961
Total consolidated	3,518	602	114,886

(1) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.
(2) Includes operating profit from financing operations before provision for doubtful debts and other operating profit.
(3) Reclassified.

Note 31 - Operating Segments
and Geographic Regions - Consolidated (continued)
For the year ended December 31, 2007

Reported amounts (NIS in millions)

B. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division International operations	Financial Division Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts								
From outside operating segments	1,822	(100)	(309)	185	657	(105)	(124)	2,026
Inter-segment	(906)	149	586	(70)	(195)	96	340	-
Profit from financing operations before provision for doubtful debts	916	49	277	115	462	(2) (9)	216	2,026
Operating and other revenues	589	21	173	42	163	56	146	1,190
Total revenues	1,505	70	450	157	625	47	362	3,216
Provision for doubtful debts	67	-	74	7	77	3	-	228
Operating and other expenses								
From outside operating segments	1,012	11	361	124	133	130	167	1,938
Inter-segment	(62)	1	(26)	(9)	68	-	28	-
Other operating expenses - total	950	12	335	115	201	130	195	1,938
Operating profit (loss) before taxes	488	58	41	35	347	(86)	167	1,050
Provision for taxes on operating profit	171	20	15	12	121	(30)	59	368
After-tax operating profit (loss)	317	38	26	23	226	(56)	108	682
Share in net, after-tax operating loss of investees	-	-	-	-	-	-	(1)	(1)
Net operating profit (loss)	317	38	26	23	226	(56)	107	681
Net after-tax profit from extraordinary items	121	52	39	1	5	-	9	227
Net profit (loss)	438	90	65	24	231	(56)	116	908
Return on equity	19.2%	-	21.6%	9.2%	13.0%	(24.0%)	26.3%	17.2%
Average balance of assets	42,430	-	4,938	4,349	17,499	5,873	18,955	94,044
Average balance of liabilities	33,219	2,210	9,796	2,167	12,240	5,999	23,082	88,713
Average balance of risk assets(1)	33,999	-	4,561	3,801	26,298	3,456	8,681	80,796
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,472	45,472
Average balance of securities (3)	17,238	4,582	14,964	1,941	36,582	780	16,716	92,803
Credit to the public (end balance)	43,603	-	4,806	4,087	17,412	4,412	-	74,320
Deposits from the public (end balance)	30,731	2,204	(3) 6,497	2,432	10,753	(3) 5,481	(3) 17,192	75,290
Average balance of other assets managed	17,110	-	158	50	113	-	-	17,431

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

(2) Includes provision for impairment of asset-backed securities, amounting to NIS 114 million.

(3) Reclassified.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued) For the year ended December 31, 2007

Reported amounts (NIS in millions)

C. Information on profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	491	-	168	80	312	88	-	1,139
Margin from receiving deposits	360	47	86	18	72	17	-	600
Other	65	2	23	17	78	(114)	216	287
Total	916	49	277	115	462	(9)	216	2,026

D. Information on geographic regions [(1)]

	Revenues for the year ended December 31, 2007 [(2)]	Net profit for the year ended December 31, 2007	Total assets as of December 31, 2007
Israel	3,214	993	90,886
Outside of Israel	2	(85)	4,431
Total consolidated	3,216	908	95,317

(1) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.

(2) Includes operating profit from financing operations before provision for doubtful debts and other operating profit.

Note 32 - Information Based on Nominal Data - the Bank

(NIS in millions)

	As of December 31,	
	2009	2008
Total assets	109,463	102,144
Total liabilities	103,158	96,432
Total shareholders' equity	6,305	5,712

	For the year ended December 31		
	2009	2008	2007
Nominal net profit	540	614	947